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GOVERNMENT OF INDIA

COMMITTEE ON UNEMPLOYMENT

REPORT
OF
THE WORKING GROUP ON INDUSTRIES

VIGYAN BHAVAN ANNEXE, NEW DELHI
NOVEMBER, 1972

CONTENTS

Chapter No.	Subject	Page
1	Introduction	1
2	Review of Industrial Growth and Employment	4
3	An Approach to Employment-Orientation of Industrial Prog[illegible]es	27
4	Strategy for Employment-Orientation of Industrial Programmes	36
5	Conclusions and Recommendations	73

सत्यमेव जयते

ABBREVIATIONS USED

I.L.O.	International Labour Organisation.
Industries (D & R) Act.	Industries (Development and Regulation) Act.
M.R.T.P. Act.	Monopolies and Restrictive Trade Practices Act.
H.E.C.	Heavy Engineering Corporation.
H.E.I.L.	Heavy Electricals (India) Limited.
M.A.M.C.	Mining and Allied Machinery Corporation.
R.B.I.	Reserve Bank of India.
S.S.I.D.O.	Small Scale Industries Development Organisation.
I.D.B.I.	Industrial Development Bank of India.
R I.P.	Rural Industries Projects.
S.I.S.Is.	Small Industries Service Institutes.
D.G.S. & D.	Directorate General of Supplies and Disposals.
D.C. (SSI)	Development Commissioner (Small Scale Industries).
N.P.C.	National Productivity Council.
N.R.D.C.	National Research Development Corporation.
C.S.I.R.	Council of Scientific and Industrial Research.

सत्यमेव जयते

CHAPTER 1

INTRODUCTION

1.1. The Working Group on Industries was appointed by the Expert Committee on Unemployment on 27th September, 1971 under the Chairmanship of Shri A. G. Kulkarni, M. P. The other members of the Working Group were :

1. Shri G. B. Newalkar, Federation of Association of Small-scale Industries in India, 23B/2, Rohtak Road, New Delhi.
2. Shri Vinay K. Shah, Chairman, National Alliance of Young Entrepreneurs, Alliance House, C-20/B, Green Park Extension, New Delhi.
3. Shri K. Venkataraman, Director, Ministry of Industrial Development, New Delhi.
4. Dr. Ram K. Vepa, Director, Ministry of Industrial Development, New Delhi. (now Director, Department of Electronics)
5. Shri P. M. Mathai, Director, Office of Development Commissioner, Small-scale Industries, Ministry of Industrial Development, New Delhi.
6. Shri M. Satya Pal, Chief (now Additional Adviser), Industries Division, Planning Commission, New Delhi.
7. Dr. C. V. S. Ratnam, Managing Director, National Research Development Corporation of India, 61, Ring Road, Lajpat Nagar III New Delhi.

Dr. V. Agnihotri was appointed Secretary of the Working Group.

सत्यमेव जयते

1.2. The Group was expanded by the Committee on 3rd November, 1971 by appointing the following persons as its members :

1. Professor V.M. Dandekar, Gokhale Institute of Politics and Economics, Poona-4.
2. Dr. A. K. Ghosh, Economic Adviser, Ministry of Industrial Development, Udyog Bhavan, New Delhi.
3. Shri P. Chentsal Rao, Joint Secretary-General, Federation of Indian Chambers of Commerce and Industry, Federation House, New Delhi-1.

On the retirement of Shri P. M. Mathai, the Committee appointed Shri K. L. Nanjappa, Development Commissioner, Small-scale Industries, Government of India, New Delhi as member of the Group on 18th March, 1972. Prof. V. M. Dandekar attended only two meetings of the Group and thereafter, resigned due to personal reasons.

1.3. The Working Group was required to recommend measures with reference to the Third Term of Reference of the Expert Committee on Unemployment, viz. "to suggest suitable strategies for employment generation, both short-term and long-term, including technical, financial and fiscal measures in respect of different sectors of the economy taking into account the mobility of labour and the openings of employment and self-employment in the tertiary sector as a result of implementation of Plan programmes and various measures initiated by the Government for activating the economy" in the context of industrial sector.

1.4. The Report of the Group has been finalised after a series of formal and informal discussions in which the various issues were considered in detail. The Group also had the benefit of discussions with Sarvashri Jyotirmoy Bosu, M. P. and Member of the Expert Committee on Unemployment, V. S. Page, Chairman, Maharashtra Legislative Council, S. L. Kirloskar of Kirloskar Brothers Pvt. Ltd., and S. V. Bhave, Secretary, Department of Industries, Government of Maharashtra (now Director General of Shipping). A joint meeting of the Working Groups on Industries, Plan and Education was also held to discuss common issues. At this meeting the Group had the benefit of guidance from Shri B. Bhagavati, Chairman and Shri N. S. Pandey, Member Secretary of the Expert Committee on Unemployment. The understanding of the complex issues of employment generation has also been enriched by the recommendations made by the Discussion Group on "A Strategy for the Development of the full Employment Potential of Large Industrial Complexes in India" at the joint I.L.O. Workshop organised by the Expert Committee on Unemployment from August 2 to August 7, 1972.

सत्यमेव जयते

1.5. The Report consists of 5 chapters: (1) Introduction, (2) Review of Industrial Growth and Employment from 1951-52 to 1971-72, (3) An approach to Employment-Orientation of Industrial Programmes, (4) Strategy for Employment-Orientation of Industrial Programmes, and (5) Conclusions and Recommendations.

1.6. The creation of adequate and productive employment opportunities commensurate with the number of new entrants into the employment market presents a problem of immense size and considerable complexity. At the same time, it is a challenge which can no longer be ignored except at great peril to the social and political stability of the nation. There are no easy solutions to the problem. It is also not possible to proceed on the basis of the experience in other countries without regard to the social and political environment as obtains in our country. We have to evolve our own pattern as suited to our genius and requirements. Admittedly, the vastness of the problem does not admit of a solution which will ensure full employment in the immediate future. It is, however, of the utmost importance that we should seek to evolve policies and measures which will be conducive within a finite time, to achieving in as nearly as possibly the fulfilment of this goal.

1.7. Within this broad approach the industrial sector has an important role to play in generating larger employment opportunities. While the direct employment provided by the industrial sector is proportionately somewhat limited, it does occupy a strategic position in activising the economy and in providing the scope for wage employment and self-employment in other sectors of the economy. A rapid development of the industrial sector and the formulation of policies and programmes which are conducive to a pattern of growth which fully satisfies the employment goal are, therefore, critical to the overall employment strategy. It is with this background in view that the Group has attempted to provide what in its view are a set of particular suggestions and recommendations for the growth of industrial sector and for the enlargement of direct and indirect employment opportunities. In doing so, it has fully taken note of the broader socio-economic considerations as set out in the Industrial Policy Resolution and other official announcements. The Group cannot claim that it had found it possible to deal with all complex issues in the degree of detail and depth as necessary. Much further work needs to be done in order to give greater content and shape to some of the suggestions made by it in its Report. The Group has attempted to touch on some of the aspects which call for a more detailed study by specialists and experts in this field.

1.8. In spite of these limitations, we hope that the Report provides the broad framework of a strategy to be adopted for future planning and development of industries as would maximise employment opportunities.

1.9. Finally, we wish to record our appreciation of the services of our Secretary, Dr. V. Agnihotri and Senior Research Officer, Shri B. D. Nakra who have been of great assistance to the Group in drafting the Report. It is only because of their perseverance and hard work that we have been able to finalise our Report in a short time. We would also like to acknowledge with thanks the assistance rendered by the other staff members, especially Shri R. K. Singh, Senior Economic Investigator who has been very helpful for collecting, tabulating and interpreting the relevant material in an intelligent manner. Our thanks are also due to Shri Babu Lal and Kumari Kamini for assisting the Group in collecting and tabulating the data from various sources. We would also like to thank Sarvashri D. V. Seth and P. K. Bhatia for providing willing and excellent stenographic assistance.

CHAPTER 2

REVIEW OF INDUSTRIAL GROWTH AND EMPLOYMENT

2.1. In this chapter, we propose to review briefly the growth of the industrial sector from the commencement of the planning process, the direction and extent of the industrial growth over the last 20 years, the contribution it has made to the economy by way of production and employment. The broad policy and institutional framework that set the pace of industrial development during this period, the changes and modifications in this regard made from time to time have also been dealt with. We have necessarily touched only on the salient aspects and have refrained from going into too many details. A background to the broad historical development and an appreciation of the present situation are important from the point of view of a fuller understanding of the approach and strategy for future industrial development which we recommend in the following chapters.

I

Industrial Growth over the Plan Periods

2.2. At the beginning of the First Five Year Plan, the industrial scene was typical of an under-developed economy. With the exception of a few agricultural-based industries like cotton and jute textiles and sugar, modrn industries virtually did not exist. The basic and intermediate goods industries were particularly insignificant. The production of iron and steel was just about a million tonnes, which was hardly 50 per cent of the then existing demand. Even in such modern industries which had come up during the post-war period, there was considerable unutilised capacity. The traditional and rural industries, though providing the bulk of the employment in the industrial sector, were labouring under severe handicaps in terms of limited market and high costs of production. The demand for most of the industrial goods including consumer goods was being met through imports.

First Five Year Plan:

2.3. The main objective in the First Five Year Plan in regard to the industrial sector was to obtain fuller utilisation of capacity, and to make a modest beginning by way of diversification of the industrial structure by expansion in the production of capital and producer goods industries such as steel, aluminium, fertilisers, machine tools, etc. The role of the public sector in industries was limited. The actual investment in the public sector in organised industries was only Rs. 55 crores during the First Plan period as compared to Rs. 233 crores in the private sector.

2.4. The legislative and institutional framework for the rapid development of industries was, however, laid during the First Plan period. The Industries (Development and Regulation) Act was brought into force in 1952. It provided for regulating industrial development, in accordance with the priorities envisaged in the Plans by requiring the expansion of existing industrial undertakings in the scheduled industries subject to the grant of a licence by the Central Government. Further, it provided necessary powers to the Government for intervention in the case of industrial undertakings which are managed in a manner detrimental to the public interest. The Act also included provision for the constitution of a Central Advisory Council for the purpose of advising the Government on matters concerning the development and regulation of scheduled industries; similarly, it also provided for the establishment of Development Councils for one or more industries to recommend the production programmes and measures for improvements of efficiency in these industries.

2.5. A number of institutions were set up during this period for promoting different groups of small industries, notably: Khadi and Village Industries Board, Handloom Board, Hadicrafts Board and Small-scale Industries Board along with the organisation of the Development Commissioner for Small-scale Industries with its network of Small Industries Service Institutes and the National Small Industries Corporation.

2.6. The First Plan witnessed an increase in industrial production to the extent of 39 per cent. The growth was more marked in the case of capital goods industries, the production of which increased by as much as 70 per cent. The manufacture of cement and sugar machinery was undertaken during this period; the production of machine tools, railway locomotives, diesel engines and electric transformers was also substantially stepped up. Another important development during this period was the establishment of petroleum refineries and substantial increase in fertiliser production capacity.

Second Five Year Plan:

2.7. It was only from the commencement of the Second Five Year Plan that the industrial sector came to occupy a prominent place in the strategy of rapid economic development. The Government of India, after taking into account all the relevant factors, brought out the Revised Industrial Policy Resolution on 30th April 1956 in order to help speeding up industrialisation and in particular the development of heavy industries and machine making industries, and to expand the public sector and to build up a large and growing cooperative sector. Under the revised policy, industries specified in Schedule A were to be the exclusive responsibility of the State, while industries mentioned in Schedule B were to be progressively State-owned but in which private enterprise would also be expected to supplement the efforts of the State. In regard to industries falling outside these schedules, their future development was in general left to the initiative and enterprise of the private sector. Notwithstanding these demarcations, it was left open to the State to undertake any type of industrial production.

2.8. In pursuance of the above policy, the growth of capacities in industries such as steel, aluminium, engineering, chemicals, fertilisers and petroleum products was taken up in a big way during the Second Plan period. Large investments were also made in industries producing heavy electrical equipment, heavy foundry forge, heavy engineering machinery, etc. Production of a variety of industrial machinery was also started for the first time. In the field of chemical industries, there was an advance on a wide front leading not only to larger units and greatly increased output of basic chemicals, e.g., nitrogenous fertilisers, caustic soda, soda ash and sulphuric acid but also to the manufacture of a number of new products, e.g., urea, ammonium phosphate, penicillin, synthetic fibres, industrial explosives, polythylene, newsprint and dyestuffs. The output of many other industries also increased substantially e.g. bicycles, sewing machines, telephones, electrical goods, textiles, and sugar machinery. Thus during the Second Plan period the growth and diversification of industries was quite remarkable and rapid. The investment in the industrial sector was substantially stepped up and the public sector assumed a leading role in the creation of capacity in basic industries. The total investment in the organised sector was Rs. 1788 crores during the Second Plan and the public sector accounted for 56 per cent of this total investment. The overall increase in industrial production during the Second Plan period amounted to 41 per cent.

2.9. During this period, financial institutions like the Industrial Finance Corporation and the Industrial Credit and Investment Corporation were set up to meet the long-term credit requirements of industries in the private sector. The National Industrial Development Corporation was also established to take up promotional and developmental work in the industrial field. These measures led to substantial step up in industrial investments in the private sector. A systematic programme for the development of modern small-scale industries was formulated. The Karve Committee which suggested plans for the development of village and small-scale industries recognised their importance for obtaining increase in supplies of consumer goods and for reducing unemployment and under-employment.

2.10. The Industrial Policy Resolution of 1956 while emphasising the role of village and small industries mentioned that "the aim of the State Policy would be to ensure that the decentralised sector secures sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry". In accordance with this approach the Second Plan emphasised that for the development of ancillaries (*i*) purchase of articles or parts from small industries should be specifically provided for while planning the production programmes of large units, and (*ii*) small industries should be brought up to a level where they can maintain assured supply of products of the requisite standard and specifications.

2.11. Some of the important programmes that were drawn up under the Plan included : (*i*) common production programmes in the case of sewing machines, bicycles, storage batteries (*ii*) restriction of further expansion of capacity in the large-scale sector in respect of certain varieties of agricultural implements, leather, tanning industry, radio receivers and small hand tools, and (iii) drawing up of a list of items which could be produced in the small-scale sector and indication of tentative targets of production for them during the Second Plan period.

2.12. To accelerate the growth of small industries, Government launched an assistance programme providing for developmental facilities such as machinery on hire-purchase through the National Small Industries Corporation, factory space in industrial estates, credit facilities on liberal terms and participation in the Government store purchase programmes, etc. as well as measures for raising the economic, technical and managerial status of small-scale industries. As a result of these measures small scale sector made significant progress in several directions : (*a*) production of articles requiring a high degree of technical skills, many of which were earlier being imported that (*b*) manufacture of certain items previously imported were taken up with foreign collaboration.

Third Five Year Plan:

2.13. In the Third Five Year Plan, the basic approach continued to be the same as adopted in the Second Plan. The primary emphasis was on proceeding rapidly with the development of basic, capital and producer goods industries and the related skills, technical know-how and designing capacity, with a view to laying the foundation for further growth on a sustained basis without undue dependence on external aid. The industrial programme was expected to strengthen the industrial base and make a significant advance on the creation of a modern self-reliant industrial structure. The investment in the industrial sector was to be further stepped up to Rs. 2570 crores during the Third Plan period. The dominant position of the public sector was maintained in the pattern of investment; the investment in the public sector was placed at Rs. 1520 crores.

2.14. These expectations were largely fulfilled. Significant addition was made to capacity in several major industries, as in steel, aluminium, heavy chemicals, fertilisers, petroleum, etc. In the field of capital equipment, adequate potential was created so as to enable the expansion of the various economic sectors like transport, agriculture and power, based substantially on domestic supplies and equipment.

Similarly, capacity was also created in sophisticated industrial machinery required in such capital-intensive industries like steel and non-ferrous metals, coal, iron ore and other mining industries and chemical industries like fertilisers and petroleum. Design and engineering capacities were also expanded and process technology acquired or developed to enable the planning, design and construction of industrial projects with maximum indigenous effort.

2.15. During the Third Plan period the industrial production increased at the rate of 8 to 9 per cent per annum over the Plan period as a whole, industrial production increased by 48 per cent.

2.16. In order to promote investment in the industrial sector, several policy and administrative measures were taken during this period. The financial institutions like the Unit Trust of India and the Industrial Development Bank of India were set up in 1964. With a view to relaxing controls and encouraging the growth of medium industries, the exemption limit for obtaining a licence under the Industries (Development & Regulation) Act was raised in 1964 from Rs. 10 lakhs to Rs. 25 lakhs. Measures were taken to stremline and expedite the procedures of licensing, import of raw materials and capital goods, issue of capital and approval of foreign collaboration agreements. A system of issue of letters of intent was introduced to signify Government's primary approval to the proposals in principle. A number of industries such as cement and paper were exempted from the licensing provisions of the Industries (Development & Regulation) Act. In order to provide the necessary flexibility in the operation of the industrial capacity, existing units were permitted to diversify or expand production upto 25 per cent of the licensed capacity under certain conditions without being required to secure a licence. Relaxations were made from time to time in the control on prices and distribution of certain industrial commodities.

2.17. A certain measure of dispersal of industries was also achieved. Several public sector projects such as the Heavy Electricals Project at Hardwar and Ramachandrapuram, and the Instruments Project at Kotah were established in areas which were industrially backward. Several State Governments took steps to establish industrial areas and provide basic facilities at suitable focal points in order to encourage the growth of industries on a wider scale. State Industries Development Corporations were set up for promoting new schemes and participating in suitable private sector projects. Certain fiscal measures were also adopted to promote dispersal of industries away from metropolitan towns.

2.18. Efforts for the development of small-scale industries were further intensified during the Third Five Year Plan which envisaged: (*i*) increase and diversification in production, (*ii*) closer integration between small and large-scale units in different industries, and (*iii*) development of small enterprises as ancillaries. Two significant measures taken during the Third Plan period to give positive encouragement to the small-scale sector to take up the manufacture of complex and sophisticated items were : (*a*) drawing up of phased production programmes as well as common production programmes in engineering and non-engineering industries, and (*b*) reservation of certain items for development exclusively in the small-scale sector.

2.19. The terminal year of the Third Five Year Plan witnessed certain strains in the economy. The planning process, which hitherto proceeded smoothly, was interrupted. The Third Plan was followed by three Annual Plans (1966-69). During this period the industrial production stagnated and even marginally declined. However, there was a marked recovery in industrial production in 1968-69.

Fourth Five Year Plan :

2.20. The Fourth Five Year Plan was formulated against the background of the recession that was witnessed in the immediate preceding past, the imbalances in the industrial structure and the considerable unutilised capacity in certain industries arising therefrom. The broad objective of the industrial policy and programmes envisaged in the Fourth Plan was to maximise the utilisation of the installed capacity to achieve a greater degree of self-reliance in strategic areas, to correct the imbalances in the industrial strucure and to secure rapid growth in industrial output and capacity to meet increasing demands.

2.21. In order to achieve this objective, the Fourth Plan envisaged a substantial step up in investments in the industrial sector. A total investment of Rs. 5,300 crores (Rs. 3050 crores in the public sector and Rs. 2250 crores in the private and cooperative sectors) was envisaged in the Fourth Plan. The bulk of the investments was to be in key industries like steel, non-ferrous metals, fertilizers, petro-chemicals, petroleum and iron ore development. The public sector was expected to assume a major role in these industries while in other industries the private sector was expected to make a substantial contribution.

2.22. In pursuance of the recommendations made by the Industrial Licensing Policy Inquiry Committee, the Government announced a revised industrial licensing policy during the Fourth Plan period. The main features of this revised licensing policy are as follows :

(1) There would be a list of 'core' industries consisting of basic, critical and strategic industries in the economy. Detailed industry plans will be prepared for these industries and essential inputs made available on a priority basis. A list of 9 broad groups of industries has been drawn up for inclusion in the 'core' sector for the Fourth Plan period.

(2) In addition to the 'core' sector, all new investment propositions of over Rs. 5 crores shall be deemed to be in the "heavy investment" sector. Except for industries reserved for the public sector under the Industrial Policy Resolution, 1956 as amended from time to time, undertakings belonging to the larger industrial houses, as defined in the report of the Industrial Licensing Policy Inquiry Committee, together with foreign concerns and subsidiaries or branches of foreign companies would be expected along with other applicants, to participate in and contribute to the establishment of industries in the 'core' and 'heavy investment' sectors.

(3) In the middle sector, involving investments ranging from Rs. 1 crore to Rs. 5 crores, licence applications of parties other than undertakings belonging to larger industrial houses shall be given special consideration and licences shall be issued liberally, except where foreign exchange implications necessitate careful scrutiny. Licence applications from undertakings belonging to or controlled by the larger industrial houses and foreign branches or subsidiaries shall be considered for normal expansion where such expansion is necessary to develop to a minimum economic level which would ensure greater cost efficiency.

(4) New undertakings or substantial expansion of units requiring investment of Rs. 1 crore or less will not be required to take a licence under the Industries (D&R) Act. This exemption, is, however, applicable only to undertakings or categories of undertakings which have existing assets of less than Rs. 5 crores and which *(a)* do not belong to the larger industrial houses as classified by the Industrial Licensing Policy Inquiry Committee, *(b)* do not require significant foreign exchange for import of machinery and equipment or of raw materials, components and the like, *(c)* are not foreign companies or branches or subsidiaries of foreign companies, such companies being those where more than 50 per cent of paid up capital is in the hands of non-Indian nationals or non-residents, and *(d)* are not included in the category of dominant undertakings as defined in the Monopolies Act.

(5) The existing policy for the reservation of the small-scale sector will be continued and the area of such reservation will be extended wherever this sector can be expected to grow to meet demand adequately. In respect of agro-industries, preference will be given in licensing to applicants from cooperative sector.

2.23. The performance of the industrial sector in the first three years of the Fourth Plan has been much below expectations. While the rising trend in industrial production in the pre-Plan year was continued in the first year of the Fourth Plan, the growth slackened during the subsequent two years. The increase in industrial production was as low as 3 per cent in 1971.

2.24. A variey of factors seem to have contributed to this situation. While industrial production in certain industries was affected on account of shortage of raw materials particularly steel and cotton, demand constraint inhibited additional production in certain other industries. Shortage of power, and transport bottlenecks, along with unsatisfactory labour relations, have also contributed to depressing the level of production and capacity utilisation. At the same time, capacity constraints had begun to develop in certain other industries, leading to shortages in the economy.

II

Synoptic view of Industrial Growth

2.25. Taking the two decades of the planning era from 1951 to 1971, the overall picture is one of sustained growth in industrial production of a satisfactory order, except for the more recent years during which there were considerable fluctuations in the rate of industrial production. Thus, the industrial production from 1951 to 1965 increased roughly at a compound rate of 6.6 per cent as will be seen in Table 1.* A sharp deterioration took place in 1966 and for the first time since 1951, there was an absolute decline in industrial production. The situation was no better in 1967. The industrial production, however, showed a sharp recovery during 1968 with a rise of 6.4 per cent over the year 1967. This trend was maintained in 1969 with a rise of 7·1 per cent over the year 1968. The rate of growth, however, dropped to 4·8 per cent in 1970 and 3 per cent in 1971. The first four months of 1972 saw some signs of recovery when the index of industrial production registered an increase of 7 to 8 per cent over the corresponding period of 1971.

2.26. This period also witnessed a significant and rapid growth of the modern small-scale industries. The small-scale manufacturing sector today occupies a prominent place in the industrial economy of the country and contributes to well-over one-third of the overall industrial production. More importantly, the small-scale sector has achieved a remarkable degree of sophistication and technical competence in the range and variety of goods produced. The vitality and strength of this sector is now well-established in so far as it is able to compete satisfactorily with the large scale sector without any special degree of protection from the Government. While precise and upto-date statistical data continue to be a serious handicap in assessing more accurately the progress of the small-scale sector, both in respect of employment and production, there are indications to suggest that this sector was probably growing at the rate of 7 to 8 per cent upto 1965.

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*Table 1 to 5 at the end of Chapter 2.

2.27. Apart from the significant increases in output in the organised and modern small-scale sector, there has been considerable transformation of the industrial structure during this period. The industrial base has been well built up and substantial capacity created in metals, machinery, fuels, and chemicals. Simultaneously, there has been a significant growth in the production of consumer industries. The entrepreneurial base has also been widened and a healthy psychological change in the attitude to production efforts brought about. The technological and scientific level has vastly improved and managerial capabilities developed. More recently, there has also been considerable competence created in the design engineering field, with the establishment of a number of consultancy firms capable of undertaking the establishment of new projects, substantially with domestic expertise. In a variety of industrial products, the level of efficiency is comparable with international standards, leading to the emergence of a growing expert sector in non-traditional commodities.

2.28. The other prominent development during this period is the emergence of the public sector to a commanding position, both in terms of investment as well as in the nature of industries undertaken. There has been a deliberate attempt to foster industrial development on a more dispersed basis. While some success in this direction has been achieved, it has not been altogether to expectations. The rapid industrial growth contributed in some measure to the concentration of economic power. Several steps have been taken in recent times to counter this trend. The revised industrial licensing policy, the M.R.T.P. regulations and the recent amendments to the Companies Act are some of the steps taken by the Government with this objective in view. The control over the financial resources, through the nationalisation of banks, will also assist in preventing undue concentration.

2.29. A synoptic view of the growth and diversification in industrial production achieved during this period can be had from the statistics given in Table 2. Tables 3 and 4 present data relating to the step up in investment in the industrial sector, both for the public as well as for the private sector. The steady growth in industrial investment in the public and private sectors which was witnessed upto the end of the Third Plan period has not been maintained during the subsequent period. In fact there has been a substantial decline and the peak level of invesment achieved during the last year of the Third Five Year Plan has not been realised even in 1970-71.

III

Traditional and Rural Industries

2.30. A word may be said about the approach and policy adopted with respect to traditional and rural industries. The Industrial Policy

Resolution stressed the role of village industries in the development of the national economy particularly from the point of view of employment, equitable distribution of national income and mobilisation of resources of capital and skill which might otherwise remain unutilized. The policy underlines the importance of improving and modernising the technique of production in these industries at such a pace as would not lead, as far as possible, to technological unemployment.

2.31. In pursuance of this policy, certain measures were taken during the Plan periods to support productive activities in the cottage and village industries more particularly, handlooms, khadi, sericulture, coir, handicrafts, etc. These have substantially borne fruit in as much as the level of employment in these industries, which otherwise would have substantially declined, has been maintained at reasonable levels. The position with regard to industries as at present is briefly given below:

Handloom Industry:

2.32. Nearly three million weavers are employed in the handloom industry. Various measures have been taken from time to time for the development of this industry including the reservation for it of certain lines of production and special measures to encourage the cooperative sector. Combined production of cotton, handloom and power loom industries is estimated to have increased from 917 metres in 1951 to 3692 million metres in 1970. Although separate figures of cloth production of handlooms and power looms are not available, it has been roughly estimated that over the last few years there has been some decline in the production of handloom cloth and a significant increase in the production of cloth by power looms. Further, according to some rough estimates made a few years ago the share of the cooperative sector in the total production of handloom cloth was as low as one-fifth. In some State and union territories the weavers' societies have continued to experience difficulties in obtaining their requirements of working capital from the State cooperative banks. The handloom weavers have also been facing difficulty in obtaining their requirements of yarn. The restrictions placed on power looms in respect of the production of specific variety of cloth already reserved exclusively for handloom sector have also not been enforced effectively. There has been a rapid growth of unauthorised power looms over the decade.

Khadi and Village Industries:

2.33. Development programmes for khadi and 22 specific village industries are being planned, organised and implemented by the Khadi and Village Industries Commission. These programmes are implemented largely by statutory State Boards through mostly cooperative societies, registered institutions and departmental units run by the

State Boards and also the Commission. The progress of the programme for khadi is given below :

KHADI

	1968-69	1969-70	1970-71
(*a*) *Production* :			
value (Rs. crores)	23·38	25·64	25·85
quantity (million sq. metres)	60·0	62·2	56·7
(*b*) *Sales* : (Rs. crores)	20·74	26·09	25·73
(c) *Employment* :			
part-time (lakh persons)	12·04	9·73	8·24
full time (lakh persons)	1·31	1·27	1·17
	13·35	11·00	9·41

Source : Planning Commission.

2.34. It will be seen from the above figures that the volume of production of all varieties of khadi has declined from 62·2 million sq. metres in 1969-70 to 56·7 million sq. metres in 1970-71, although its value remained stationary owing to the increase in the prices of cotton. There has also been a decline in the volume of employment which is mostly of part-time nature.

सत्यमेव जयते

2.35. As regards village industries assisted by the Khadi and Village Industries Commission, the progress is shown below :

Village Industries

	1968-69	1969-70	1970-71
(1) *Production* : (Rs. crores)	81·50	78·00	85·60
(2) *Sales* : (Rs. crores)	64·11	64·54	74·25
(3) *Employment* : (lakh persons) . . .	8·17	9·00	9·79

Source : Planning Commission.

2.36. The programme for the progressive improvement of production techniques of village industries so as to bring them to a viable level as recommended by the Ashoka Mehta Committee and has envisaged in the Plan, has not made any headway.

Sericulture :

2.37. This industry provides mostly part-time employment to about three million persons in the rural areas. While the Central Silk Board has been engaged mainly in conducting research, the silk growing State have been implementing schemes for increasing production, improving the quality and providing marketing assistance for increasing experts. The figures relating to production and exports of silk are given as under:

Production & Exports of Silk

	Production (Lakh Kgs.)		Total	Exports (Rs. crores)		
	Mulberry	Non-mulberry		Fabrics	Waste	Total
1969-70	18·23	5·78	24·01	17·42	0·54	17·96
1970-71	23·19	5·95	29·14	10·04	0·68	10·72
1971-72 (estimated)	23·50	6·25	29·75	7·16	0·44	7·60
1972-73 (anticipated)	23·75	6·50	30·25	10·00	0·50	10·50

SOURCE : Planning Commission.

Price fluctuations and costs of production constitute the two main problems affecting the growth of industry.

Coir :

2.38. This industry is estimated to provide employment to over 0.8 million persons mostly in Kerala. Within the country, Kerala produces 70 per cent of coconuts and 95 per cent of coir. This is mainly an export-oriented industry. The export figures of coir yarn and coir products from 1968-69 to 1971-72 are given below:

Exports (Rs. crores)

	Coir-yarn	Coir-products	Total
1968-69	9·1	5·4	14·5
1969-70	8·2	5·4	18·6
1970-71	7·7	6·1	13·8
1971-72	7·3	7·6	14·9

SOURCE : Planning Commission.

2.39. The industry is mainly organised on cooperative basis. However, the cooperative societies are facing a problem to obtain institutional finance mainly because most of them have not been working satisfactorily. Another problem in this industry is to bring about the improvement of production technique and evolving new products.

Handicraft :

2.40. Handicrafts provided employment to about 13 lakh persons in 1970-71. The main object of the development programme for handicrafts has been to improve the productivity of the artisans through supply of improved appliances and new designs, preservation of skills and expansion of internal sales and exports. During 1971-72 the production of various handicrafts was estimated at Rs. 380 crores. The exports of handicrafts increased from Rs. 75 crores in 1968-69 to Rs. 84 crores in 1971-72. Owing to a decline in the tempo of activities of the All-India Handicrafts Board and also inadequacy of the financial provisions made by the States, the progress in the development of handicrafts has been slow.

2.41. The importance of the group of industries discussed above arises from the fact that they currently provide employment to something of the order of over 10 million persons among relatively vulnerable classes and widely dispersed in rural and semi-urban arises. They also possess distinct possibilities for enlarging employment opportunities on a significant scale at relatively small costs. In general, these industries suffer from inadequate institutional credit and relatively poor technological level.

Sick and Closed Units :

2.42. A feature of recent times has been the emergence of an increasing number of sick and closed units in some of the traditional industries, causing serious problems of production and employment. This is indicative of the fact that while the economy has diversified and grown into new directions and substantial stress has been laid on new investments and additional capacity, equal attention has not been bestowed over the years in the maintenance of the health of some of the older industries, such as, textiles, sugar, coal, foundry, structurals, etc. To a large extent the problems in these industries arise on account of the continued neglect of replacement of worn-out machinery and the lack of induction of modern technology, leading to erosion of the competitive strength of the units. The magnitude of the problem is such that special measures would need to be taken to deal with it. The extent of the malady will be evident from the fact that according to certain broad estimates, as many as 1·9 lakh employees were affected by the closure of some 1,200 industrial units in 1969-70. While the National Textile Corporation has been set up to deal with the management of the closed units, and, more recently the industrial Reconstruction Corporation has been established for rehabilitation of sick and closed units, a more fundamental approach by way of monitoring the health of these industries and of taking preventive action well in advance of the closure of the units is called for.

IV

Trends in Industrial Employment

2.43. Precise data about the employment generated through the programmes of industrial development over the Five Year Plans are not available. However, some rough estimates of the additional employment likely to be generated in a particular plan period were given in the various Plan Documents. In the First Five Year Plan it was estimated that the additional employment in the industrial sector would be of the order of 4 lakhs[1] inclusive of additional employment offered in small-scale industries. In the Second Five Year Plan the contribution of the industries and minerals and cottage and small-scale industries was put at 7·50 lakhs and 4·50 lakhs[2] respectively. Additional employment of the order of 7·50 lakhs and 9·00 lakhs[3] was shown against industries and minerals and small-scale industries respectively in the Third Plan Document. The Committee of Experts on Unemployment Estimates (under the Chairmanship of Prof. M. L. Dantwala) however, observed that the data available to the Planning Commission for estimating unemployment and underemployment are not precise and adequate. Regarding estimation of employment potential generated during a Plan-period, the Committee observed that reliable data are necessary on additional employment per unit of investment and/or increase in output in different sectors for making such estimates. The relavant ratios not only differ from industry to industry but are seldom the same at the margin on the average for the same industry. Changes in technology and organisation also necessitate changes in co-efficients. In view of this observation, no estimates of backlog of unemployment and job opportunities which might be generated are given in the Fourth Plan Document. Still an idea of the additional employment opportunities generated as result of planned industrial investments could be had from the figures of the "Estimated Average Daily Employment in Working Factories" being brought out in their annual publication "Indian Labour Statistics" by the Labour Bureau, Simla (Deptt. of Labour and Employment). The figures of estimated average daily employment in working factories from 1951 to 1970 are given in table 5.

2.44. The fast deteriorating employment situation is noted by the fact that employment generation in spite of planned development is not commenderate with the fast increasing demand for additional employment opportunities. This is true of the industrial sector also wherein the rate of growth of industrial production has not been so high as to make a significant impact on the employment situation. Had the industrial growth been higher during the period under review, the rate of growth of employment would have also been better. The growth of industrial production from 1951 to 1971 is given in Table 1.

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[1] The First Five Year Plan (Page 654).

[2] The Second Five Year Plan (Page 115).

[3] The Third Five Year Plan (Page 159).

2.45. It would be seen from the following table which has been derived from Table 1 and 5 that while employment in the factory sector increased at a compound rate of about 3 per cent per annum during 1951-70, industrial production during the same period expanded by about 6 per cent. which is about twice the rate of growth in employment.

Percentage increase or decrease in industrial employment and production over the previous year.

(Base year 1951=100)

Year	Employment	Industrial production
1952	3·67	3·60
1953	—1·69	1·93
1954	2·26	6·91
1955	2·54	8·41
1956	9·26	8·33
1957	2·29	3·54
1958	—1·92	1·74
1959	3·50	8·87
1960	3·55	11·57
1961	4·09	9·20
1962	4·92	9·70
1963	6·20	8·26
1964	5·72	8·54
1965	2·47	9·23
1966	0·59	—0·17
1967	1·23	—0·85
1968	—0·04	6·42
1969	0·86	7·06
1970	2·90	4·82
1971	...	3·00

सत्यमेव जयते

NOTE.—It may be pointed out that the coverage of employment data and index of Industrial production are different. While employment statistics relate to factories employing 10 or more workers and using power, factories employing 20 or more workers and not using power and factories specially brought under the purview of the Act by the State Governments, the industrial production statistics mostly relate to major industries. They cover almost the entire output in the case of well-organised industries like cotton and jute textiles, iron and steel and sugar. In the case of remaining industries they cover production of all except small units. While 'mining and quarrying' is included in industrial production, factory employment data exclude employment in this field. Due to difference in coverages, a comparable relationship between the behaviour of employment and production in the industrial sector cannot be established.

2.46. The data presented in Table 5 brings out prominently the fact that factory employment has made only a small contribution towards employment in relation to the needs. According to some rough estimates, the addition to labour force during the decade 1961-1971 was of the order of about 40 million. During the same period, the employment opportunities provided by the factory sector was only about a million. Thus, the factory sector has been able to absorb only about 2½ per cent of the total addition to labour force during the last decade. This is evident of the limitation of the industrial sector to provide direct employmet in a significant manner.

2.47. It also bring out the fact that the broad approach and economic policy that has hitherto governed the industrial strategy was not such as was intended to expand employment opportunities in this sector in a massive manner. The primary emphasis in the Industrial Policy Resolution as well as in the Plans drawn up subsequent to the enunciation of the Industrial Policy Resolution has been directed 'to accelerate the rate of economic growth and to speed up industrialisation and in particular, to develop heavy industries and machine making industries. Employment *per se* was not considered an objective in itself, though it was assumed that the economic foundations laid through the development of heavy industries would provide "increasing opportunities for gainful employment". There was, no doubt, recognition of the problem of maintaining employment in the village and traditional industries and of expanding, as far as possible, employment opportunities in the small-scale sector. In brief, the approach was of strengthening the industrial base and the flow of massive investments in this direction on the one hand and of maintaining or, if possible, expanding employment opportunities in the village and small-scale industries on the other. It was expected that the expansion of the industrial base will provide indirect employment opportunities through the expansion of the economy.

2.48. To what extent this approach has been successful in creating employment opportunities is difficult to assess in precise terms. Undoubtedly, the policies adopted with regard to village and small-scale industries have assisted in substantially maintaining employment in the traditional industries and expanding employment opportunities in the modern small-scale sector. However, the total addition to employment provided in the village and small-scale sector over the last two decades could not be substantially large. According to certain estimates, the modern small-scale sector currently provides employment to the extent of about 2 millions[4] in establishments below the factory sector. The addition to employment for the period under review in the factory sector has been of the order of 2 million. Assuming tentatively, that there has been no increase in employment in the traditional industries—where the primary emphasis has been one of maintaining rather than increasing employment, it may not be substantially incorrect to assume that the industrial sector as a whole has provided additional employment of only about 4 million during the two decades 1951-71.

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[4] SOURCE : Development Commissioner, Small Scale Industries, Government of India, New Delhi.

TABLE 1

Growth of Industrial Production

S. No.	Year	Index (Base 1951=100)	%age increase or decrease
1	1951	100·0	..
2	1952	103·6	3·60
3	1953	105·6	1·93
4	1954	112·9	6·91
5	1955	122·4	8·41
6	1956	132·6	8·33
7	1957	137·3	3·54
8	1958	139·7	1·74
9	1959	152·1	8·87
10	1960	169·7	11·57
11	1961	185·3	9·20
12	1962	203·3	9·70
13	1963	220·1	8·26
14	1964	238·9	8·54
15	1965	260·9	9·23
16	1966	259·1	—0·17
17	1967	256·9	—0·85
18	1968	273·4	6·42
19	1969	292·7	7·10
20	1970	306·8	4·82
21	1971	315·9	3·00

सत्यमेव जयते

NOTE.—The index from 1960 onwards has been converted to conform to the base 1951=100.

SOURCE : Pocket Book of Economic Information (Ministry of Finance, Government of India).

TABLE 2

Production in selected industries

S. No.	Item	Unit	1950-51	1955-56	1960-61	1965-66	1968-69	1969-70	1970-71 (estimated)	1973-74 (anticipated)
1	2	3	4	5	6	7	8	9	10	11
1	Iron ore . . .	Million tonnes	3·0	4·3	11·0	24·5	28·1	21·2*	22·5*	42
2	Coal	Do.	32·8	39·0	55·7	70·3	75·4	80·0	75·0	N.A.
3	Finished steel . .	Do.	1·04	1·3	2·39	4·51	4·7	4·80	4·48	5·6
4	Pig Iron (for sale) .	Do.	0·36	0·39	1·1	1·2	1·3	N.A.	N.A.	2·5
5	Steel ingots . .	Do.	1·47	1·74	3·42	6·53	6·5	6·43	6·14	7·5
6	Copper (virgin metal) .	000 Tonnes	7·1	7·6	8·5	9·4	9·4	9·8	9·3	14·0
7	Aluminium (virgin metal)	Do.	4·0	7·4	18·3	62·1	125·3	135·1	167·8	210·0
8	Cement machinery .	Value in Rs. lakhs	..	40	60	490·0	810·8	1010·0	420	1500
9	Sugar machinery . .	Do.	..	20	440·0	770·0	1180·0	1390·0	1390	1900
10	Machine tools . .	Do.	30	80	700	2940	2540	3290	3930	6000
11	Diesel engines (stationary).	000 numbers	5·5	10·4	44·7	93·1	118·0	134·2	68·6	80
12	Tractors (agricultural) .	Do.	..	..	Neg.	6·3	15·4	N.A.	N.A.	50
13	Electric transformers (33 Kv and below).	000 Kva.	178	625	1392	4460	4800	N.A.	N.A.	8600

सत्यमेव जयते

TABLE 2—*Concld.*

1	2	3	4	5	6	7	8	9	10	11
14	Chemical fertilizers :									
	(i) Nitrogenous .	000 tonnes of N	9	80	101·0	232·0	541·0	716	830	1620
	(ii) Phosphatic .	000 tonnes of P_2O_5	9	12	53·0	123·0	210·0	222	229	458
15	Sulphuric Acid . .	000 tonnes	101	167	368	662	1038	1197	1155	1600
16	Soda ash . . .	Do.	45	82	152·0	331·0	405·0	427	449	485
17	Caustic soda . .	Do.	12	36	101·0	218·0	304·0	354	364	450
18	Sewing machines . .	000 numbers	33	111	303·0	430·0	427·0	340	235	500
19	Bicycles . . .	Do.	99	513	1071·0	1574·0	1990·0	1976	2027	2700
20	Cotton textiles (mill-made).	million metres	3401	4665	4649	4401	4297	4192	4055	5100
21	Sugar	000 tonnes	1134	1890	3021	3541	3559	4261	3740	4700
22	Cement . . .	million tonnes	2·73	4·67	7·97	10·8	12·2	13·8	14·4	18·0
23	Petroleum products (capacity in terms of crude throughput).	million tonnes	0·2	3·4	5·8	9·4	15·4	16·6	17·0	21·0
24	Electric fans . .	million numbers	0·20	0·29	1·06	1·36	1·48	1·51	1·72	2·5
25	Newsprint . . .	000 tonnes	..	3·6	23·0	30·3	31·0	..	..	60
26	Power tillers . .	000 numbers	..	..	..	..	0·5	N.A.	N.A.	12·0
27	Metallurgical and other heavy equipment.	000 tonnes	..	..	..	11	25	N.A.	N.A.	40

28	Coal and other mining machinery.	Do.	..	..	..	5·1	8·0	N.A.	N.A.	20
29	Heavy fabricated machinery for fertilizers and chemicals.	Do.	..	..	..	..	..	..	..	8
30	Heavy pumps and compressors.	000 tonnes	..	..	..	..	..	..	..	2
31	Crawler tractors · and Wheeled loaders.	Numbers	..	..	..	..	..	..	..	600
32	Seamless pipes . .	000 tonnes	..	..	..	..	21·8	N.A.	N.A.	35
33	Turbines hydro . .	million Kw.	..	..	..	Neg.	0·1	N.A.	N.A.	1·0
34	Turbines thermal . .	Do.	..	..	..	Neg.	0·4	N.A.	N.A.	1·74
35	Power boilers . .	Do.	..	..	..	Neg.	0·4	N.A.	N.A.	1·3
36	Electric transformers above 33 Kv.	Million Kva.	..	..	..	1·2	3·5	N.A.	N.A.	6·4
37	Electric motors above 200 H. P.	million H. P.	..	..	..	0·5	0·5	N.A.	N.A.	0·68
38	*Synthetic fibres* :									
	(i) Nylon filament (ii) Nylon tyre cord, and (iii) Other industrial yarn.	000 tonnes	..	..	..	1·5	6·5	N.A.	N.A.	16·0
39	Polyster filament and staple fibre.	Do.	..	..	..	1·4	4·8	N.A.	N.A.	15·0

Source : Plan Documents and Economic Survey 1971-72.

*Excludes output in Goa.

N.A. Not available.

TABLE 3

Yearwise plan expenditure (actual) on industry and mining during the years 1951-52 to 1971-72

(Rs. Crores)

Year	Actual/Anticipated Expenditure	Percentage change over the previous year
1951-52	10·62	Nil
1952-53	9·39	—13·09
1953-54	18·36	+95·52
1954-55	21·61	+17·16
1955-56	36·95	+71·78
1956-57	81·52	+120·62
1957-58	227·28	+178·80
1958-59	279·34	+22·91
1959-60	268·85	—3·90
1960-61	218·56	—23·01
1961-62	235·84	+7·91
1962-63	298·93	+26·75
1963-64	391·26	+30·89
1964-65	458·41	+17·16
1965-66	582·60	+27·09
1966-67	557·22	—4·55
1967-68	513·25	—8·57
1968-69	566·10	+10·30
1969-70	485·32	—16·64
1970-71	517·91	+6·71
1971-72	602·66 (estimated)	+16·36

सत्यमेव जयते

SOURCE : 1. Basic Statistics relating to the Indian Economy (p. 67)—Central Statistical Organisation.

2. The Fourth Plan Mid-Term Appraisal Vol. II Planning Commission.

TABLE 4

Increase in gross fixed assets of large and medium public limited companies

(Rs. crores)

Year	Increase in Gross Fixed Assets	%age variation
1961-62	187	..
1962-63	191	2·12
1963-64	233	21·9
1964-65	223	4·29
1965-66	239	7·17
1966-67	424	77·4
1967-68	320	24·5
1968-69	289	9·68
1969-70	305	5·53

Source : Reserve Bank of India Bulletin, July 1972 (p. 1114).

Note : Figures for 1961-62 to 1965-66 relate to 1333 companies (old sample) and for 1966-67 to 1969-70 relate to 1501 companies (revised sample).

सत्यमेव जयते

TABLE 5

Estimated average daily employment in working factories

(Employment in '000)

S. No.	Year	Working Factories	Employment	Percentage variation
1	1951	..	2914	..
2	1952	..	3021	3·67
3	1953	..	2970	—1·69
4	1954	..	3037	2·26
5	1955	..	3114	2·54
6	1956	37162	3402	9·25
7	1957	39138	3480	2·29
8	1958	41579	3418	1·92
9	1959	46402	3635	6·50
10	1960	48038	3764	3·55
11	1961	50095	3918	4·09
12	1962	54370	4111	4·92
13	1963	57366	4366	6·20
14	1964	60602	4616	5·72
15	1965	63573	4730	2·47
16	1966	64872	4702	0·59
17	1967	67582	4760	1·23
18	1968	68599(R)	4758(R)	0·04
19	1969	72343	4799	0·86
20	1970	76739	4938	2·90

SOURCE : (1) Reserve Bank of India Bulletin, July, 1971.

(2) Indian Labour Statistics, 1972 (Labour Bureau, Simla).

सत्यमेव जयते

CHAPTER 3

AN APPROACH TO EMPLOYMENT-ORIENTATION OF INDUSTRIAL PROGRAMMES

3.1. Generation of employment opportunities is essentially a problem of economic development. A rapid rate of economic growth should normally lead to the creation of larger employment opportunities. But, in India this has not happened in practice. Although economic development in India during the last two decades resulted in an overall increase in per capita income at constant prices, yet there has not been a commensurate improvement in the employment situation and therefore, in the distribution of the increased income. There is thus a need for suitable modifications in the pattern of economic growth with a view to creating larger employment opportunities. The strategy to be adopted would need a coordinated view being taken of all sectors of the economy. This, however, is a wider question and is beyond our scope. Our task is to devise ways and means of generating larger employment opportunities in the industrial sector.

3.2. Past experience in India as well as in other countries clearly shows that the industrial sector by itself is not likely to generate all or bulk of the employment that is needed. Its contribution in providing direct employment is limited. The main sources of employment have, therefore, to be sought in the development of agriculture, animal husbandry and forestry and the fall-out effects of agricultural and industrial growth on the tertiary sector, because higher productivity and employment intensity can be combined in the former while the major opportunity for new employment really arises with the growth of the tertiary sector (including transport and all other services). This does not, however, mean that industries cannot contribute further to the creation of larger employment opportunities. It only means that direct employment opportunities generated by industrial growth tend to be relatively limited. On the other hand, its indirect effects in generating a whole chain of multiplier effects in which increasing numbers of labour force come to be employed in trade, marketing, commerce, banking and other tertiary activities are considered significant. It is also felt that these multiplier effects are likely to be substantially different for alternative patterns and programmes of industrial development. Acoordingly conditions should be created for the growth of those industries which will have the maximum employment potential not only in the manufacturing sector but within the economy as a whole.

3.3. The employment potential generated in the industrial sector is basically a function of two factors : (*a*) the rate of industrial growth comprising of industrial production and fresh industrial investment, and (*b*) the pattern and structure of industrial development. In other words, we will have to concentrate not only on increasing the overall rate of growth of industrial production but also give attention to the structure of the growth of industrial production in a manner as would generate larger employment.

3.4. The first thing that needs to be done for generating larger employment opportunities in the short-term, with marginal additional capital investment, is to increase the growth rate in industrial production.

3.5. Several factors have been mentioned as being responsible of late for inhibiting the growth of industrial production. They need to be carefully examined one by one. In the following, we mention some of the more important factors :—

(A) Unutilised capacity existing in a number of industries :

The reasons for the existence of unutilized capacity in both large and small-scale sectors are manifold. In part, under-utilization of capacity has been due to unbalanced capital investment in particular firms or within the industry as a whole or even between industries, causing crucial bottlenecks in some and unutilised capacity in the others. Lack of demand and unsatisfactory labour relations have affected some industries. A shortage of raw materials has affected many industries, while teething troubles and operational problems have affected others. But our procedures and rules have also been responsible for the existence of considerable under-utilisation of capacity in many industries. It cannot be gainsaid that increased production, particularly where it can be obtained only through larger input of labour, e.g. in the case of multishift operation, is a desirable objective, and should be secured in order to maximise employment.

(B) Failure of the industrial sector to come up to the expectations :

Some of the present problems stem from imperfect planning of investment and from weaknesses in the management of both public and private sector concerns. Past experience over the Plans suggests that investment decisions have not matured on time on account of inadequate preparatory work in respect of industrial projects with the result that employment-generation has been delayed or has suffered on that account. Adequate preparatory work would not only result in better performance in regard to Plan investment and rapid industrial growth, but would also call for immediate employment of technical personnel, designers, engineers, construction experts, etc. for the preparation of detailed plans and blueprints for industrial projects.

(C) Need for growth-oriented industrial licensing procedures :

It has been alleged that the present procedures covering the gamut of industrial licensing and the numerous other connected approvals required by private entrepreneurs inhabit investment in the private sector without necessarily achieving the objectives of industrial policy. This is a matter which needs to be carefully examined and relevant procedures appropriately revised and simplified so as to avoid delays and to give a push to investments in desired directions.

(D) Industrial relations :

The industrial scene, both in the public and the private sectors has been marked by deterioration of labour relations. According to the latest estimates, 948 units were closed involving 1,36,593 workers during 1970-71 as compared to 1221 units involving 1,90,176 workers in 1969-70. Though there is a slight improvement in the situation, yet it continues to cause concern.

(E) Demand constraint :

There are certain industries which are not in a position to utilise their full capacity due to inadequate demand which is either temporary or man-made. In some industries there is over-installed capacity, e.g. railway wagons. The installed capacity for railway wagons is very much in excess of our requirements and even if the railways were to place more orders, much of the existing capacity may be expected to remain idle. On the other hand in certain undertakings, the bulk of installed capacity is idle for want of orders. Improvement in management, so as to reorient production to changing demand conditions can help achieve a significant increase in output and, therefore, in employment in these industries. In many units, like the H.E.C., Ranchi, H.E.I.L., Bhopal and M.A.M.C., Durgapur, the pending orders are quite large today, and yet production lags behind. There are other industries like diesel engines where demand is going down due to the increasing pace of rural electrification. In still others, the existence of unused capacity could be traced to transport bottlenecks. On the whole, it may be stated that there are demand constraints due to lack of a coordinated approach towards industrial programmes, and due to inadequate adaptation of our productive apparatus to meet emerging needs.

(F) Lack of supply of raw materials :

Lack of supply of raw materials like iron and steel, certain non-ferrous metals, cotton, oilseeds, caustic soda, soda ash have greatly hindered the growth of industrial production from time to time both in the large and small-scale sectors. In this context, raw materials could be classified into those which are based on the fortunes of agriculture; those which are industrial but mainly available indigenously; and those that are required to be imported. Attention needs to be given not only to measures that would ensure their production and availability at reasonable prices, but where there are inescapable shortages, their equitable distribution to ensure that production of essential items and employment do not suffer.

3.6. These are some of the important and serious issues. They are already taken note of in the Mid-Term Appraisal of the Fourth Five Year Plan. Nevertheless, they require added emphasis and urgent attention so that impediments to industrial production in the country can be removed as early as possible.

3.7. In the long-term, a step up of industrial investment in a significant way would contribute to enlarging employment opportunities. The actual rate of investment in the public and private sectors achieved in the first half of the Fourth Plan unfortunately been below expectations. This trend would need to be reversed. In particular, public sector investment on infra-structure and on industries with large multiplier effect needs to be stepped up. It would also be in the interest of higher industrial investment and consequently larger employment that the Government lays down certain broad guidelines in the matter of industrial licensing and financing of industrial growth.

3.8. The other factor on which the employment potential of an industrial investment programme depends is the pattern and structure of industrial dtvelopment which in turn is mainly fashioned by: (*a*) the industry-mix, (*b*) the technology-mix on which depend, (*c*) the scale of operation. and finally to an extent, (*d*) the location of industry.

सत्यमेव जयते

3.9. An analysis of the performance of the large and small-scale sectors in terms of employment generated would give an idea of their respective potential. According to the Annual Survey of Industries—1966 (the latest available) conducted by the Central Statistical Organisation, Government of India, the fixed capital investment per worker in the small-scale sector was Rs. 2,641 as against Rs. 17,744 in the large-scale sector. The World Bank in its recent Report on Small-scale Industry in India (1972), has also brought out that the ratio of fixed capital to labour is much lower in small-scale sector as compared to large-scale sector. The ratio of value added by manufacture to investment is also much higher in small-scale sector and the lower capital cost more than offsets the lower output per worker in the small-scale sector, so that, on the whole, production in the small-scale is found in many industries to be more efficient.

3.10. The pattern of industrial growth built over the years, however, reflects its large scale character. While this reflects the type of investment undertaken in the past, e.g. for steel plants and fertiliser factories where the capital employed per worker is necessarily high, and which are in any case necessary not only for growth but also for creating employment opportunities (in engineering industries and in agriculture respectively), the constraint of scale does not always depend on the industry but also on the technology adopted, it being possible to choose one of several technologies for many industries and spheres of economic activity. The use of earthmoving equipment as against labour for construction (say of a dam) illustrates two extremes. In short, the choice of sophisticated capital intensive technology has resulted in lower employment generation than may have been possible. To illustrate, while industrial production during 1951-68 increased more or less by 6·5 per cet per year, employment increased by only 3 per cent.[1] This means that employment increased at a rate of about one-half that of industrial production.

3.11. A re-orientation of industrial development programmes to create more employment would, therefore, call for the organisation of production in the low capital intensive scall-scale sector as far as possible. Technologically it is not feasible to have all industrial production organised in such a way. There are compulsions of technology and scale in many industries, where production will necessarily have to be organised on a large-scale. However, over a lage area, technology does not come in conflict with scale of production to be chosen, and the choice of labour saving devices has really been due in the past to the ready availability of imported equipment designed for use in countries with high wages and labour shortage. In these industries, production needs to be organised in the small-scale sector with a lower degree of capital intensity. A further advantage of organising modern industrial production in small-scale units is that it encourages new entrepreneurship, expands self-employment and enables decentralised industrial growth. To make the small-scale units commercially a viable, they should be given positive assistance, and provided guidance and services such as consultancy services, organisation of research, marketing and financial assistance.

3.12. Industrial programmes could be further oriented towards employment by developing selected industries in which the necessary expertise, resources, etc. are indigenously available. To cite a few examples, these industries are electronics, metal work, food processing, leather products, rubber, plastics, wood working, ship-building, etc., which would also generate substantial employment. The selection of specific industries to be promote immediately, can, of course, be appropriately left to experts. But the basic point is that there is need today to focus attention on both the industrial pattern and the technology to be adopted for our future industrial growth. We have in the past emphasised the development of basic and heavy industries. These necessarily have relatively lower direct employment potential, although they do create secondary employment opportunities. But in order to meet rising consumption demand especially in the rural areas, we would also need to pay attention to increased production of mass consumption goods, much of which can be organised on a decentralised basis. But those industries having the maximum employment linkage effects would have to be identified and given necessary priority. Even within a particular industry there might be certain lines of production which may have preponderantly large employment linkage effects. The automobile is one such industry where production of commercial vehicles leads to considerable employment linkage effects as compared to other products, and also at the same time provides the basis for more rapid and efficient transport of goods and persons, which must be deemed to be basic requirement of development. The constraint of demand can, in this connection, be solved by providing easier finance for both trucking and passenger transport. It is this type of co-ordinated approach which can ensure the modification of the production programme suitably so as to bring about a matching of employment-oriented production with demand for the output obtained.

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[1] R.B.I. Bulletin, July, 1971-p. 1000.

3.13. A policy of creating deliberate imbalances in favour of industrial programmes having potential for larger employment opportunities would also pay dividends. Such a policy has been tried with success in the past for developing basic and machine-building industries in our country. In the first instance, it would involve giving priority to employment intensive programmes such as roads, rural electrification, minor irrigation, building construction and housing. Then industrial programmes would have to be tailored to the demands arising out of such order of priority. The effort should not be only to meet the demand generated for industrial products of such a programme but also to create a surplus by a deliberate policy decision.

3.14. Apart from the appropriate scale of operation and right type of industries mix, larger employment opportunities could also be generated by adopting the technology mix suitable to our factor endowment position. It is common knowledge that what really matters while deciding the scale of operation is the most efficient technology available in a particular line of production. Modern technology imported as it is from developed countries, where conditions of labour scarcity prevail, is highly capital-intensive and is, therefore, unsuitable for our labour abundant economy. The solution to the problem lies in deliberately developing a technology or adepting known technologies consistent with our factor endowments. This would involve a great deal of scientific effort. Since development of such an appropriate technology may take time, attempts should be made to see that modern technology is not imported blindly, without reference to Indian conditions, merely in the name of greater efficiency and lower cost, the more so because the cost to the entrepreneur in such cases is quite different from the cost to the country. To encourage adoption of labour-intensive technology in the immediate future, fiscal and monetary measures such as making capital more expansive or subsidising industries which offer to employ labour in as significant way, with a view to encouraging such techniques would be called for. A detailed study of the cost of different technologies to the economy in real terms should also be undertaken to identify the technology suitable to our national objectives, such as, employment, export promotion and import substitution.

3.15. A factor inhibiting the growth of appropriate technology in the country is the general reluctance to go in for self-reliance in fields even where technological self-reliance is possible. This is because of the insistence on being up-to-date with the latest technology even when this is not necessary. The industrial policy has to be deliberately reoriented to making use of what we can produce and thus building an industrial structure on what we can do rather than on importing the latest and the most upto-date technology of the time.

3.16. Although much is being said about the development of backward areas, sustained attempts have not been made through the regulatory powers in the hands of the Government to ensure that industries are dispersed away from metropolitan concentrations. This is not merely from the point of view of preventing urban congestion and environmental pollution. There is a positive aspect of creating greater employment opportunities through the expansion of activities in the tertiary sector in these areas. It is, therefore, necessary that suitable measures should be taken to ensure : (*i*) infrastructure facilities are built up, and (*ii*) industries are set up, wherever possible away from the highly developed areas to locations which have the necessary infrastructural facilities and provide scope for industrial growth. There is perhaps need for identifying and categorising growth centres for this purpose with an indication as to the type of industries or the scale of industries that can come up around such centres. This would tend to disperse the industrial growth in the country and generate larger employment opportunities.

3.17. Mere location of an industry by itself may not generate employment unless a systematic attempt is made to ensure that a large numer of ancillary units are set up around the big industries. The example of many industries in Japan which have set up assembly plants right on the fringe of rural areas with ancillary units set up on a small scale in the villages with facilities from the large undertakings needs to be followed. There is still far too much of reliance on centralised production and assembly and no advantage has been taken of new skills which can be created in the semi-urban or rural areas, provided that infrastructure facilities, like, electricity, transport and communications are developed. The programme of ancillary development should be given a big push by making it obligatory for the bigger units both in the public and the private sectors to promote the development of ancillary industries by making them sub-contract for components parts, sub-assemblies, etc. to be supplied by small-scale units.

This would be necessary in view of the slow progress made in this direction so far. The development of ancillaries should be regarded as an important instrument for creation of new employment opportunities.

3.18. Creation of additional employment opportunities alone will not make a significant impact on the problem of unemployment. There are several traditional village and small industries which today provide large-scale employment and which are critical from the point of view of preventing the accentuation of the present situation of unemployment. Admittedly the pattern of ownership, the nature of technology and the structure of industries like coir, cashew, bidi, etc., are such that they not today in a position to maintain their viability. Under these handicaps, these industries are likely to peter out unless some support measures are provided. For instance, a deliberate policy decision was taken at the beginning of the Second Plan to protect the handloom industry, primarily from the point of view of maintaining employment which runs into several lakhs and provides occupation on a decentralised basis in rural areas for the socially weaker and vulnerable classes of society. This policy has been helpful in assisting such sections of the society. An integrated set of policies providing reservation of production with fiscal support and technological assistance, has resulted in subsantially maintaining the levels of employment in the handloom industry. To some extent similar measures have also been taken in other traditional industries for example, to maintain the employment potential in the traditional crafts through the Handicrafts and Handloom Export Corporation of India. It would be necessary to adopt similar measures for other traditional industries to protect the present level of employment. At the same time steps will have to be taken to make these industries economically viable over a reasonable period of time by upgrading their technology and by giving them necessary institutional support. While the need and justification for such protection is obvious, experience shows that such protection can create permannent vested interests in the backward technology which may prove to be an impediment to technological progress in the country. Therefore, while devising apprepriate measures of protection, there should be some provision for removal of such protection when conditions justify.

3.19. The problem of sick and closed units is another area where sustenance of existing levels of employment is necessary. Such units generally suffer on two counts. Firstly, a number of traditional large industries like textiles, sugar, collieries, foundry, structurals, etc. suffer from long periods of neglect and call for modernisation of their machinery/equipment. Secondly, there are industries suffering from managerial, financial and other allied problems. In the small-scale sector, there are a number of industries, which are in need of modernisation. In this respect, particular mention may be made of small foundries, machine tool factories, fabrication workshops, etc. It would be necessary to take suitable measures to solve the technological, financial and managerial problems of such units in both large and small-scale sectors.

3.20. It is not possible to provide salaried/wage employment to all the unemployed. It would therefore, be desirable to encourage self-employment in industries also. This would also help in promoting entrepreneurship, increasing production and at the same time creating larger employment. The need in this connection is the provision of cheaper and easier credit and assistance in marketing, in the procurement of raw materials, as well as the provision of common facilities (like tool room facilities by the Small-scale Industries Development Organisation).

3.21. I is to be recognised that in spite of the best efforts in the industrial sector, it is not likely to absorb, in the foreseeable future, the great backlog of unemployment in the country. To remove this, steps will have to be taken to provide at least transitional employment to a large number of the unemployed else-where, such as rural works. This is a matter which is being attended to by another Working Group. From the point of view of growth of industrial production, such transitional employment is relevant because provision of appropriate employment to the large masses of unemployed in the country will also create a certain amount of purchasing power in the hands of the poorest sections in the economy and thus generate effective demand for the products of many industries. To the extent that industrial production has stagnated because of lack of effecive demand, even transitional employment to large masses of people will give an impetus to industrial growth in certain sectors to begin with and to industrial growth in general in due course. Also to the extent that such employment is used for creating infrastructure facilities, like roads irrigation facilities, etc. that will also help in promoting industrial growth in the long run. It is then that a number of those who at present can be provided with no more than transitional employment on the rural works, will be gradually absorbed in more permanent employment in the growing industrial sector and in the territory sector which will grow along with the industrial sector.

CHAPTER 4

STRATEGY FOR EMPLOYMENT-ORIENTATION OF INDUSTRIAL PROGRAMMES

I

Acceleration of Industrial Growth

4.1. The strategy for employment-orientation of industrial programmes would necessitate acceleration of the rate of industrial growth (which has gone down from 6·9 per cent in 1969-70 to 4·3 per cent in 1971-72) in conformity with the guidelines given in the previous chapter. This would demand creation of conditions favourable to rapid increase in industrial production and new investment.

Fuller utilisation of installed capacity :

4.2. There is currently unutilised capacity both in the public and private sector undertakings. An idea of the extent of under-utilisation in the public sector could be had by looking at the performance in 1970-71 of some of the important projects. The public sector steel plants have been operating at 50-65 per cent of the rated capacity. They could perhaps contribute one million tonnes of additional steel through better performance during 1972-73, although this presupposes harmonious working of the plants, and careful attention to the operational problems of the various manufacturing units. The Heavy Engineering Corporation is currently working at below 30 per cent of its installed capacity. Barring a few, the fertilizer projects of the Fertilizer Corporation of India are not showing results that may legitimately be expected of them. Drugs projects and the photo-film factory are some of the other public sector units which are working much below their rated capacity.

4.3. Industries in the private sector also suffer from under-utilisation to a significant extent. Some of those affected largely are machine tools, transport equipment including commercial vehicles, tractors, industrial machinery particularly textile, cement and paper and pulp. The extent of under-utilisation in 1970-71 was 66 per cent. in the transport equipment industry, 75 per cent. in the tractor industry, 60 per cent textile machinery and 40 per cent. in cement machinery. Better utilisation of installed capacity would help accelerate the rate of industrial production with concomitant multiplier effects on other sectors of the economy.

4.4. The Fourth Plan Mid-term Appraisal has pointed out that in the short-term, measures will have to be taken to obtain maximum output from the existing capacities both in the large-scale and small-scale sectors. To achieve this end, action in general has to be taken in several directions.

4.5. Raw material shortage has primarily affected engineering industries based on steel, non-ferrous metals, plastic and those based on agricultural raw materials like raw cotton, oil seeds and jute. The problem affects both large-scale industry and small-scale units, the procedure for allocation of both imported and scarce indigenous raw materials being unsatisfactory and even discriminatory in so far as the latter are concerned. Certain steps have already been taken by the Government to improve the supply of steel and non-ferrous metals through larger imports. It has also been decided to set up a 'steel bank' to make available from its ready stocks, the requirements of private and public sector projects of scarce categories of steel against valid licences held by them. A series of measures have also been initiated to increase production of steel from existing plants and to establish additional capacity. Crash programmes have been launched to achieve self-sufficiency in raw cotton, oil-seeds and jute during the next two or three years. While it may be expected that these measures in the long-run may bring about larger domestic supplies of essential raw materials required in various industries, there is an imperative need to keep a careful watch in regard to the overall supply/demand position of the critical raw material over the next few years and to ensure that realistic import programmes are drawn up well in time to maintain satisfactory availability of raw matrials in accordance with the rising level of industrial production. This is of vital significance in as much as shortages in these critical raw materials have considerable spread effect over the entire economy leading to slackening in industrial production, investment in the economy, employment and exports.

4.6. Production in the recent past also been affected due to power shortage which seems to be fairly widespread. In part, this is on account of the delays in the commissioning of major power projects; equally, it represents inadequacies in the utilisation of the existing power capacity for a variety of reasons. In the short-term, every effort will need to be made for fuller utilisation of the existing power capacity through better maintenance, reduction in transmission losses and strengthening of the transmission system so as to facilitate the transfer of emergy from surplus to deficit regions. A crash programme on these lines will need to be drawn up and implemented. In the long run, power capacity should be substantially augmented somewhat ahead of needs along with arrangements for integrated operation in the power system with the establishment of regional load despatch stations. The importance of adequate and reliable power supply not only in the context of industrial development but also for the overall economic development of the country needs due emphasis.

4.7. The output in many industries has also been adversely affected owing to transport bottlenecks. The somewhat ironical situation of unutilised capacity in the coal industry coupled with critical shortage of coal to the consumers is indicative of the present inadequacies in the transport system. Production in other industries like fertilisers and cement also would have been higher if there had been no movement problems. The current deficiencies in this regard will need to be critically examined and remedial measures taken urgently. From the long-term point of view, transport planning will have to be more closely devotailed and coordinated with the location of industrial projects and its transport needs.

4.8. Lack of effective demand and disturbed industrial relations have been other important factors contributing to under-utilisation of installed capacity. Some of the industries affected by demand constraint and the reasons thereof have already been mentioned in the previous chapter. In part, this situation had arisen on account of the inadequate tempo of public sector outlay in the initial years of the Fourth Plan period. The substantial increase in investment in the public sector during 1972-73, as envisaged in the Annual Plan, is likely to have a favourable impact on the greater utilisation of capacity in certin industries like the railway wagon industry. More importantly, however, it will be necessary to diversify the range of production of such of those units which are affected by demand constraint, having regard to the structural changes and demand shifts in the economy. The Working Group is of the view that a comprehensive study of industries affected by demand constraint be undertaken by the respective Ministries and the S.S.I.D.O. in respect of small-scale industries in order to identify the factors responsible for the current situation, to examine the possibilities of diversification and to work out an integrated industry-wise programme to rectify the existing maladies. Improvement in industrial relations also contributes to better utilisation of installed capacity. Loss of production due to industrial unrest adversely affects national income and the potential source of capital for the creation of additional jobs. Though there was some improvement in the situation during 1970-71, yet it continues to cause concern. We feel that the compulsions of the current economic situation necessitate a more harmonious relationship between management and labour. This is, however, feasible only in an environment of confidence and commitment, with the cooperation of the employers and workers, both in the public and private sectors. No effort should be spared to bring about conditions conducive to the creation of a favourable climate for industrial relations an essential pre-requisite to higher industrial production and more employment.

4.9. The activisation of inbuilt capacity and multiple shift-operation can significantly conribute, in the short-term, to additional production and employment. In recognition of this, Government have already permitted additional production through fuller utilisation of capacity in 65 specified industries except for the larger houses and foreign firms. In the case of the latter, individual cases will be considered on merits by a task force set up by the Ministry of Industrial Development. If the legal recognition so given to additional production is supported by adequate supplies of raw materials, this can quickly lead to substantial improvement in production and employment. We feel that in a capital short economy, once industrial capacity has been created, whether authorised or unauthorised, it should be utilised to maximise production and employment. This does not mean that those who have created unauthorised capacity and thereby increased their share of the market, should be rewarded. A modus operandi could be found by which while the installed capacity is adequately utilised to increase production and employment, the benefits from such additional production do not flow to those who have created the unauthorised capacity. While the violation of law should be penalised, the nation should not deprive itself of the benefits of investments already made. We suggest that the relaxation recently announced with respect to the 65 specified industries, may be suitably extended to other important industries having regard to the broad principle mentioned above.

4.10. It is likely that the above steps taken in respect of essential inputs, maintenance, balancing equipment, industrial relations, public investments, etc. might result in higher utilisation of capacity in both public and private sectors. But it seems that there is no regular arrangement at present for advance collection and monitoring of information about the factors impending the fuller utilisation of installed capacity. This results in avoidable loss of production and employment on account of delay in reacting to the developing situation. It is the considered view of the Group that the concerned Central Ministries, Departments and authorities should review the existing machinery for collecting, collating and analysing information about the critical inputs, state of maintenance and other factors so as to effect improvement that would make the flow and analysis of such information regular and timely. Co-ordination would need to be effected through inter-Ministrial groups or otherwise to see that the information collected is used to monitor the situation and to take advance action to prevent the emergence of under-utilisation of capacity. The composition of any such group should be such that only those officers of the concerned ministries/departments are included who are directly responsible for implementing the decisions taken by the inter-ministerial group. If quick results are to be achieved, it would be necessary to provide for special allocation of resources and simpler procedures.

II

Promotion of New Investments

4.11. Apart from fuller utilisation of the installed capacity, larger employment opportunities in the long-term could be generated by a considerable step-up in the rate of new industrial investment both in the large-scale and small-scale sectors. Suitable measures for quickening the process have to be taken on an urgent basis. Action in this regard would have to be initiated in many directions.

4.12. The public sector is assuming an increasing role in terms of new investments in the industrial and mineral sector. The success of the industrial programmes, therefore, vitally depends on strengthening the capabilities of the public sector organisations in undertaking the larger responsibilities that devolve on them. In many of the key industries, the public sector occupies not only a preponderant position but further expansion in these industries will largely be in the public sector in further years. Production and expansion of these industries have a considerable multiplier effect on the development of a variety of other ancillary industries as well as on the growth of other sectors of the economy. At the same time, these industries present considerable complexity in terms of technology, scale of operation and level of investment. They also require a well-coordinated approach in implementation on account of the inter-sectoral linkages. The lack of adequate preparedness to deal effectively with these problems has been to a larger extent, responsible for the relatively slow rate of investment in the public sector in the initial years of the Fourth Plan. As a consequence, as will be seen from the table below, the actual/anticipated expenditure in the first three years of the Plan period in many important groups of industries has been substantially below expectations.

TABLE

Trend of Investment in Major Sectors

(Rs. crores)

Sector	Fourth Plan outlay	actual/anticipated expenditure			Total for three years	Percentage of the 4th Plan outlay
		1969-70	1970-71	1971-72		
Iron & Steel .	1053·32	173·20	177·84	191·90	542·94	51
Non-ferrous Metals	247·77	14·49	23·37	38·61	76·47	30
Iron Ore . .	88·34	7·14	9·40	17·89	34·43	39
Fertilisers . .	493·73	77·09	54·68	65·87	197·64	40
Petroleum including refineries.	303·20	55·27	61·00	80·78	197·05	65
Petro-chemicals	77·50	4·97	7·20	23·78	35·95	46

SOURCE : The Fourth Plan Mid-term Appraisal (p. 153).

4.13. In order to avoid repetition of the situation in future, the Working Group is of the view that advance preparatory action with detailed cost and time schedules and material procurement in construction planning should be undertaken urgently for new projects likely to be included in the Fifth Five Year Plan. Further, it will also be necessary to have adequate arrangements within the projects and in the administrative ministries to monitor the progress in implementation of projects and to take corrective action in advance. This would be particularly relevant to industries like steel, power, petro-chemicals, iron ore development, etc., which involve inter-sectoral inter-dependence. Strengthening of the public sector undertakings and of the consulting agencies as required for this purpose will generate additional employment opportunities, particularly for highly qualified technical personnel. The setting up of the Public Investment Board is a step in the right direction, and it is to be hoped that the new procedures will be worked in a manner calculated to speed up investments.

4.14. The investment lags are not confined only to the public sector. Though precise and up-to-date estimates about new investments in the private sector are not available, there are indicators which suggest that the level of investment in the private sector has also reaimed substantially below the projections in the Fourth Plan. The actual figures available in regard to gross fixed asset formation of the public limited companies for the years 1966-67 to 1969-70 and the percentage annual variation are given in the following table:

TABLE

Gross Fixed Asset Formation in Large and Medium Industries

(Rs. crores)

Year	Public limited all companies	%age annual variation
1966-67	401·0	..
1967-68	393·6	—1·85
1968-69	358·6	—8·89
1969-70	374·2	4·35

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Source: "Finance of Public Ltd. Companies" Published annually in R.B.I. Bulletin.

The table shows that gross fixed asset formation has come down from Rs. 401 crores in 1966-67 to Rs. 358·6 crores in 1968-69. Even in the year 1969-70 when there was a slight improvement of 4·35 per cent over 1968-69, it was still below the level attained in 1966-67.

4.15. This improvement in 1969-70 seems to have been carried forward as is evident from the data on industrial licences issued, licences granted for the import of capital goods, the volume of capital issues, the credit advanced to the private corporate sector by the term-lending institutions. In 1969, the number of industrial licences issued was 221, in 1970 it increased to 363, and in 1971 it further increased to 626. The value of licences issued for the import of capital goods during 1971-72 amounted to Rs. 250 crores as compared to Rs. 117 crores during 1970-71. The sanctions of capital issues by companies in the private sector increased from Rs. 113 crores in 1970 to Rs. 182 crores in 1971. The amounts sanctioned by the term-lending institutions* increased from Rs. 154 crores in 1969-70 to Rs. 233 crores in 1970-71, thereby showing an increase of about 51 per cent, while disbursements were higher by about 27 per cent. Though this shows signs of some improvement, yet new investments in the private sector continue to be below the levels invisaged in the Fourth Plan.

Modification of Industrial Licensing Policy and Procedures:

4.16. The relatively poor performance of investment in the private sector in the early years of the Fourth Plan can in part be explained as representing the after-effect of the hesitancy during the recessionary period in taking new investment decisions. Now that the overall economic situation has substantially improved and the emerging demands for a variety of industrial products, in many of which scarcities are acutely felt, portend a favourable climate for new investment in the creation of additional capacity, it is necessary to streamline the policies and procedures connected with the approval of industrial projects in a manner as would speed up decision making and enable the exploitation of the opportunities for new industrial investment to the full extent. Some of the salient aspects as pertaining to the necessary modificaions of industrial policies and procedures are discussed in the following paragraphs.

4.17. Consequent on the recommendations of the Industrial Licensing Policy Enquiry Committee (Dutt Committee), a revised licensing policy was announced in February, 1970. This policy provided on the one hand a considerable measure of liberalisation in the matter of industrial licensing to new and medium entrepreneurs, and on the other hand put certain limitations in regard to the expansion of large industrial houses and foreign companies. The latter was primarily to concentrate their efforts in the core and heavy investment sector. Further, it was also envisaged that the financial institutions would seek to provide the option for the conversion of their loans into equity in such undertakings which are assisted by them in a significant way.

4.18 While the policy represents an attempt to enlarge and diversify the entrepreneurial base and to set severe limitations on the large industrial houses and foreign companies with a view to preventing concentration of economic power, several difficulties have been experienced in the actual working of the industrial licensing policy. As a consequence of the liberalisation, the number of letters of intent and licences issued have substantially gone up. However, the absence of a selective approach in regard to approvals has also resulted in a large portion of such letters of intent not getting fructified further, the broader technoc-economic considerations as pertain to different industries also seem to have received little attention at the time of approval. The large number of applications received in recent years, following the liberalisation of the licensing policy, has also imposed severe burdens on the administration. In spite of the measures taken to speed up the consideration of applications for industrial licences, there is still a large pendency of such applications. The broad objectives of the policy are undoubtedly in accordance with the larger socio-economic goals set for itself by the country. However, the practical administrative steps as required for translating this policy in effective measures, has yet to be worked out. Considering the disabilities from which new and medium entrepreneurs suffer, no positive steps have yet been worked out to assist them in a meaningful manner to enable them to bring about speedy industrial growth. At the same time, a strategy of utilising the substantial financial and managerial resources existing in the larger industrial houses and foreign companies for industrial growth in a manner as to subserve the overall national interest, without leading to excessive concentration, has also not been evolved. The concept of the joint sector is yet to be precisely defined and applied.

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*Source : I.D.B.I. Annual Report—1970-71 (page 47).

4.19. The experience over the last two years in the working of the industrial licensing policy suggests that certain adjustments in this policy may be called for in order to speed up industrial investment and growth. A clear need for other supporting measures at the institutional level is also evident to bring about an acceleration of industrial growth through new and medium entrepreneurs.

4.20. Apart from the border questions of overall industrial policy, it seems that a completely new approach is warranted in the matter of various regulations and controls pertaining to industrial development. The crucial consideration is one of the substantially reducing the time-lag in securing the various clearances from the Government with respect to new investment decisions. Investment proposals have currently to pass through a muliplicity of check points so that the time interval between the initiation of a proposal and its final approval in all respects covers a period of two to three years in most cases. There are several instances where the time-lag has even been longer. This applies almost equally to investments in the public as well as in the private sector. Under the present procedure, each case needs to be considered separately and in consecutive stages from the point of view of the industrial licensing regulations, import regulations, foreign collaboration aspect, M.R.T.P. Act etc. The procedures connected with each of these stages are such that considerable effort and time have to be devoted by the entrepreneurs to secure each of these clearances. To the extent regulations exist, certain procedural formalities are inevitable. There are limits beyond which, with the best of administrative will and efficiency, the processing of cases cannot be speeded up. Several attempts have been made in the past to simplify procedures and to lay down rigid time limits. While these have been helpful to some extent, they have been of marginal significance and the cumulative delays involved in securing all the clearances are still high.

4.21. The critical requirement of the present situation is to bring about rapid industrial growth and, therefore, of a gathering tempo of investments in the public and in the private sector in the establishment of new industries and expansion of existing units. Time factor is a matter of essence and speedy decisions a pre-requisite to accelerated industrial growth. The considerable emphasis that is being laid on industrial growth and employment in the Fifth Plan period, envisaging a substantial step up in financial outlay in the industrial sector, will place intolerable burdens on the administrative system if the present regulatory arrangements and procedures are to be continued. A legitimate apprehension in this context is whether the delays that have become so much a part of the current regulatory mechanism will not prove to be a major bottleneck in the fulfilment of the considerably expanded industrial programme that is envisaged for the Fifth Plan period. It is in this context that a new orientation and approach to the detailed regulatory and control arrangements seem an inescapable element of the strategy to be adopted for the future.

4.22. Having regard to these considerations, the Working Group is of the view that a detailed examination of the various regulations and controls as effect industrial growth should be undertaken with a view to analysing to what extent these are essential from the point of view of the broader objectives proposed to be secured through them and to consider to what extent these regulations should be modified or done away with by simpler alternative instruments of policy. The primary consideration in the adoption of the alternative choices should be the overall balance of advantage rather than rigid adherence to individual objectives in their totality. With this purpose in view, consideration should be given as to the extent to which the detailed administrative controls, as exercised at present, can be replaced by appropriate fiscal and financial policies. Broadly speaking, the objective should be to retain physical control only in critical areas, involving deployment of large-scale resources. By doing so, the administrative burden would be substantially reduced and at the same time, Government would be able to give more careful and continued attention to major projects in key industries. For the rest, the considerable command which Government has over the credit institutions and the great possibilities that exist in the adjustments in the fiscal and financial policies should be fully taken advantage of to direct invesments in the desired channels according to priorities and to subserve the objective of greater reliance on domestic resources and talent. Thus, for example, the credit institutions could be advised of the relative priorities of different industries from the point of view of canalisation of funds. Excise duties and import duties could be so adjusted as to inhibit expansion of non-priority industries and to ensure greater reliance on domestic technology and equipment. The Working Group recommend that a detailed examination of these aspects be undertaken so as to volve appropriate policy measures well in advance of the commencement of the Fifth Plan. At the same time, there is need to give a new orientation to the role of the financial instituions by strengthening their capabilities in providing assistance to the new and medium entrepreneurs, in terms of preparing feasibility reports and providing other consultancy services including trouble shooting, apart from giving financial assistance to them.

III

Refashioning the Pattern of Industrial Growth

4.23. Acceleration of Industrial growth by itself may not lead to substantial increases in employment in the industrial sector. It is through the refashioning of the pattern of industrial growth that we can achieve some significant results in terms of additional employment. Even this has limitations if we take into account the long-term objectives of economic growth with social justice including self-reliance. In addition, the overall rate of industrial development has necessarily to be related to the development in the rest of the economy which can be sustained within given limits of technological capacity and of resources, physical and financial. Keeping in view these constraints, a list of 'core' industries consisting of basic, critical and strategic industries in the economy has been drawn and definite targets of capacity and production laid down for the Fourth Plan. Reshaping of industry-mix will, therefore, have to be attempted keeping in view the above factors. What is fact is proposed is that far greater emphasis is required to be placed on certain industrial programmes having relatively larger employment potential.

Industry-mix :

4.24. The first factor to be taken into account while choosing a partner of industrial growth appropriate to the creation of larger employment opportunities is the scale of operation of an industrial unit. This would call for the examination of the role of large and small-scale sectors in keeping with our approach. In the large sector, broadly these industrial programmes would have to be taken up in which there are compulsions of technology and scale. Many industries such as steel, petrochemicals, fertilizers and the like would necessarily need to be planned on a large-scale to take advantage of economies of scale and to bring down the cost of production. These are necessary to take care of the needs of attaining self-reliance and an adequate rate of industrial growth. Even in these cases there is need to make deeper study of the optimum scales of production to determine viability points in the conditions prevailing in India.

4.25. Further, there are certain industries having maximum employment linkage effects. When developed on a large scale basis they generate considerable employment outside the industrial sector especially in the tertiary sector in the form of trade and services. Examples of such industries to which particular attention needs to be paid are electric power, fertilizers, steel and commercial vehicles. It would be necessary to identify such industries and give relatively greater emphasis to their development in future within the overall constraints in the economy. Their identification should be done at a more disaggregated level and specific products having maximum employment linkage effects identified in an industry. Automobile industry is one such case where production of commercial vehicles leads to considerable employment linkage effects as compared to other products.

4.26. The importance of large-scale industries will also stem from the accent that the Fifth Five Year Plan is going to lay on employment-oriented developmental programmes. These programmes will generate, on the one hand, demand for certain critical items like cement and steel, and on the other, for mass consumption goods like foodgrains, vegetable oils, cotton textiles, sugar, etc. The production of steel and cement on the requisite scale can be ensured only through production in the large-scale sector. The supply of most of the mass consumption goods can be assured through rapid development of agriculture. This itself will generate demand for some of the critical industrial inputs like fertilizers, pesticides, etc. The supply of these essential inputs will have to come largely from the large-scale sector.

4.27. Apart from considerations given above, the role of the large-scale sector is also vital for the growth of small-scale industry which is critically dependent upon the former for (a) the availability of raw materials and (b) market for their products. In many ways, the large-scale and small-scale sectors are complementary to each other. Thus, for example, the automobile ancillaries are dependent for their market on the automobile industry in the large-scale sector. Similarly, engineering and plastic goods units in the small-scale sector depend on steel and plastic raw materials turned out by the large-scale units.

Having regard to these considerations, the Working Group recommends that industrial programmes in the large-scale sector should be confined to those items in which there are compulsions of technology and scale and where there is immediate need to augment the supply of mass consumption goods. Industries having maximum employment linkage effects and producing raw materials and intermediates should also go to this sector. There is also a need for a coordinated programme which closely integrates the small-scale units with the large-scale industries in terms of backward or forward linkages.

IV

Promotion of Small-scale Industries

4.28. The rate of growth of small-scale industrial units and their contribution to industrial employment and output and the wide range of production achieved by them during the past 15 years clearly highlight the important role played by the small-scale sector in the industrial economy of the country. As at the end of 1971, the number of small-scale units registered with the State Directors of Industries was 2,81,866. Further, it was estimated that the small-scale sector of industry provided employment to 36·7 lakhs persons and accounted for a gross output valued at Rs. 4,860 crores. A large number of sophisticated products are now produced in this sector. That this achievement should have been possible despite serious handicaps being suffered in the matter of supply of scarce raw materials, institutional credit and of facilities for marketing, shows the inherent vitality of the small-scale sector and its potentialities for rapid growth. In our view, the promotion of small enterprises deserves much greater attention than hitherto, if the basic objective of economic growth with social justice is to be achieved and employment opportunities in a much larger measure are to be created. In this context, it would be appropriate to suggest such measures as would be conducive to a faster rate of growth and to indicate the potential fields of production in which assistance if stepped up would create large-scale employment opportunities both in urban as well as rural areas.

4.29. We have been informed that as many as 124 items have been exclusively reserved for production in the small-scale sector and that 80 more items are being considered for similar reservation, based on technical feasibility and economic viability of small-scale operation without prejudice to the quality of the product. In order that small-scale units may gear up their production to meet the current and the future demand for these items at competitive prices, it is imperative that they should have an assured supply of raw materials (both indigenous and imported) and adequate financial assistance. In the absence of these supports, the policy of reservation would neither encourage existing units to expand production nor induce new units to come up in these lines of production.

Agro-industries :

4.30. Apart from the lines of activities in engineering, electrical, electronic and chemical based industries in which there is considerable scope for development of small-scale units, we would like to emphasise the need to give particular attention to the development of agro-industries in the future strategy for the promotion of small-scale industries.

4.31. Processing of agricultural raw materials, utilisation of agricultural bye-products and waste products and activities supporting agricultural operations such as production of implements, fertiliser mixture, pesticide formulations, etc., and provision of servicing facilities for the upkeep and maintenance of agricultural machinery and equipment like sprayers, dusters, pump sets, tractors etc., are all capable of being organised as small enterprises to absorb a good number of qualified entrepreneurs as well as skilled and unskilled workers on many semi-urban and rural areas.

4.32. Most of these activities are also expected to be taken up in the Rural Industries Project areas. However, the rate of progress in these fields of small enterprises has to be accelerated through integrated assistance to provide adequate infrastructure, to identify promising small entrepreneurs and to offer suitable incentives to entrepreneurs to take up such activities and to provide them adequate raw materials and institutional credit.

4.33. The existing Rural Industries Projects have already been extended to cover the entire area of the districts in which they are located. It is envisaged to cover the entire countryside under the RIP programme in a period of 25 years by taking 50 new projects in each Plan period beginning with 5th Five Year Plan. However, there is an urgent need to step up substantially the coverage of the programme, considering the magnitude of the problem of unemployment and underemployment in rural as well as urban areas. In our view, it should be possible to take up 100 new projects so as to provide employment opportunities to about 1 million persons during the 5th Plan period.

Development of Ancillary Units:

4.34. Another area in which employment opportunities can be enlarged is the development of ancillary small-scale industries. The large and small-scale industries are to a great extent inter-dependent and contribute to each others' prosperity. On the one hand, small-scale industries turn out products on the basis of basic materials like iron and steel, aluminium, chemicals, etc., produced in large-scale units. On other hand, large-scale units buy components, spares, sub-assembly, etc. from small units to manufacture their final products. It is felt that inter-dependence of this type is very essential and should be fostered for the sustained growth of the small-scale sector, especially when we realise that it is going to lead to handsome results in terms of employment and dispersal of economic activity. This organic relationship could be established on a sound footing if the large-scale units farm out such components, parts spares sub-assemblies, etc., as could be maunfactured advantageously in the small-scale units. Such a relationship has been working with success in some of the advanced countries especially Japan, U.S.A. and U.K. In Japan,* "in 1966 about

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*Working Paper for the Joint I.L.O. Workshop on Employment Generation by SUSUMU WATANABE.

3,10,000 enterprises (53 per cent of medium and small-scale enterprises in Japanese manufacture) were sub-contractors to a greater or a lesser extent and they employed 3·6 million workers or more than one quarter of the total manufacturing labour force." This system of "sub-contracting contributed considerably to industrial progress and the solution of unemployment problem in post-war Japan, whose fundamental problem was too many people, too little land and too few industrial resources for some time after World War II."

4.35. In India adequate progress has not been made in this direction so far. There are quite a number of large undertakings, both in the private and public sectors, around which there is scope for development of ancillary industries. Of these, only a few have taken effective steps to develop regular ancillary units. According to estimates made by the S.S.I.D.O. although about 10,000 small-scale units were reported to be supplying parts and components to large units, only about 400 units had so far been registered as ancillary units. In order to promote integrated development of large and small-scale industries and maximise employment opportunities through setting up of ancillary units it would be necessary to take certain essential measures.

4.36. The first and most important among them is that the new industrial undertakings which apply for licences to manufacture plant, machinery and other industrial goods should be compulsorily asked to farm out to small enterprises such of those components and parts as are capable of being manufactured in small-scale sector. Even in the matter of certain processing and finishing jobs like heat treatment, and electroplating the large-scale units need not be allowed to establish such facilities but get these jobs done by the existing small-scale units or new units to be established. Secondly, existing as well as new large-scale enterprises should deliberately foster development of ancillary units by providing them technical guidance, testing facilities, and also encouraging qualified and experienced persons in their organisations to set up such units. Thirdly, raw material supplies to ancillary units should be ensured and they may be accorded priority so that they could effectively and promptly meet their commitments to large industries. The allocations of raw materials to ancillary units may also be supplemented by large-scale units who are generally assured of raw material supplies to take up production up to a certain economic level of their capacity. Fourthly, certain fiscal policies like sales tax and excise duties on parts and components fall on both the large and small units and thus act as a negative influence on sub-contracting. It is necessary to ensure that there is no double incidence of taxes and duties. In this connection the Working Group feels that possibility of introducing a value added tax of the type now under consideration in west European countries should be explored. At any rate some scheme should be evolved to avoid the cumulative incidence of excise duties and sales tax when production is decentralised and parts and components manufacture is taken up by ancillary units. Lastly, reluctance on the part of small units to enter into sub-contracting arrangements with large units is mainly due to delayed and bad payment practices. There appears to be an urgent need for a legal framework governing such contractual arrangements backed by a statutory authority to deal with complaints from sub-contractors.

4.37. For promoting small-scale units around large 'industrial complexes', it would also be necessary to set up sub-contracting exchanges in different parts of the country on the pattern of exchanges already functioning in Madras and Bombay. These exchanges would on the one hand provide a useful media and formum for gaining knowledge and understanding of the requirements and problems of both large and small units and on the other they would ensure effective marketing arrangements for products of ancillary units.

Need for Better Facilities/Assistance:

4.38. It may be thus observed from the foregoing paragraphs that a combined policy of incentives and disincentives would be required to promote integrated development of large and small industries in a manner that it leads to maximisation of employment opportunities and dispersed industrial growth in the country. This would mean provision of preferential package of facilities and institutional framework to effectively implement the programmes of small industries. Some of the important facilities required for fulfilling the increased responsibilities are given in the following paragraphs.

Financial Assistance:

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4.39. The credit requirements of the small-scale sector would increase considerably in the coming years in view of the proposed emphasis on this sector and also on account of emphasis being accorded to schemes of self-employment for educated unemployed and young engineers, development of backward areas and agro-industries. There are two important channels of credit to small-scale industries *viz.*, the State Financial Corporations and the commercial banks, particularly the State Bank of India and its subsidiaries. Another source is the National Small Industries Corporation (N.S.I.C.) which provides machinery and equipment on hire-purchase basis to the small-scale industries. State Financial Corporations are running efficiently in some States while in other States they are not doing so well. Most of the State Financial Corporations do not have branch offices nor they have adequate appraisal facilities in respect of the financial and technical aspects of a project. They have to rely on the Small Industries Service Institutes (S.I.S.Is.) for appraisal functions for which the Institutes are not adequately equipped. A similar situation exists for commercial banks and the National Small Industries Corporation. These agencies also depend largely on other organisations for appraisals. To cut down delay in the grant of loans, there is also need for coordination, between the State Financial Corporations and the commercial banks. The applicant should be required to submit a copy of his project report each to the State Financial Corporation and the commercial bank. The loan for fixed assets could be granted by the State Financial Corporation and for working capital by the commercial bank. It would also be necessary that these agencies earmark additional funds for assistance to small-scale industries in keeping with the higher requirements of this sector in the coming years.

Fiscal Measures:

4.40. Fiscal incentives to small industries provide the lever for their steady and healthy growth. A well-defined policy in this regard needs to be worked out to give the required support and encouragement to the accelerated growth of certain Small-scale industries. As at present fiscal measures have been employed to this purpose only to an extent. Thus, for example, in the matter of levy of excise duty (which again is applicable only to a few items like footwear, soaps, electrical batteries and parts thereof, paints, radios, straw board and mill board) there has been some differentiation, based on scale of production, number of workers employed, quality of the production etc. The levy of differential rates of excise duty should be designed to give a fillip to the small-scale units.

4.41. We also agree with the Committee for Drafting Legislation For Small Scale Industries that the Restricted Partnership Act may be enacted to attract risk capital. The present differentiation in tax structure between partnership firms and Public Limited Companies has brought about hardships and has restricted the growth of partnership firms.

4.42. Japan, which is the pioneer in the development of modern small industries, has provided a number of tax concessions to the small enterprises. Such a wide range of tax reliefs have gone a long way in promoting the development of the small-scale industry in Japan. In India, where the small-scale sector is gradually emerging as a vital element of industrial development, a reorientation of the tax structure to promote small-scale industries requires close examination.

Raw Materials:

4.43. In regard to raw materials, there has been some improvement in recent years as is evident from the increase in value of import licences issued to small-scale sector from Rs. 49·77 crores in 1967-68 to Rs. 118 crores in 1971-72. While this is a welcome development the basic objective should be to treat the small-scale units at least on a par with large-scale units in the matter of allocation of scarce raw materials. To this end, there is need for a more liberal policy than hitherto followed. This matter has been examined in some detail by the Balachandran Committee and we fully endorse its recommendations which need be implemented without further delay. In our view, this single step more than any thing else will provide the maximum stimulus to the growth of the small industries.

Marketing :

4.44. The small units are at a great disadvantage from the point of view of marketing their products as compared to the large-scale units. This is another aspect in regard to which the small manufacturer needs to be assisted.

4.45. In so far as the small-scale units in the ancillary sector are concerned, we have already referred to the need for bringing about an organic relationship between such units and the major industries to which they cater. Provided the measures we have recommended are implemented, the group of small-scale industries falling within this category will generally find their marketing problems substantially alleviated.

4.46. In regard to other small-scale units, a measure of preference is currently accorded for selected items in Government purchases. While this is certainly helpful, this measure will be of greater assistance to the small units if the procurement procedures of the D.G.S. & D. and other Government procuring agencies are simplified. The Working Group suggest that this aspect may be examined by the Government.

4.47. The States Small Industries Corporations can also play an active role in the display and marketing of products produced in the small-scale units. The possibility of setting up trade centres and retail outlets at important places by the S.S.I.D.O. and States Small Industries Corporations to market the products of small-scale units needs to be carefully considered. Further, cooperative marketing agencies by small-scale units may also be encouraged.

Need for Legislation for Small-scale Industries:

4.48. It would not be possible to evolve a suitable strategy for development of small-scale industries unless and until the place and role of the small-scale sector in the industrial economy are clearly defined. So far there is no separate act/legislation for small-scale industries and they are governed by the various acts (Factory Act, Company law, Partnershoip Act, Industrial Development and Regulation Act, etc.), originally enacted for large-scale industries. The small-scale industrialists have to suffer from severe handicaps and undergo unnecessary troublesome and cumbersome procedural delays as a result of these. A time has come when apart from recognising place of the sector in the national economy which it has come to occupy over the last two decades, a separate legislation should also be enacted to remove the inherent drawbacks and difficulties which have stunted its growth in the past. We have already mentioned under the head of ancillary industries as to how their development in India has suffered due to lack of statutory backing. Even in advanced countries like Japan, U.S.A. and U.K. there are separate legislations for protecting small-scale industries.

4.49. We have been informed that on the recommendation of the Small-scale Industries Board, a Committee was set up in January, 1972 under the Chairmanship of Shri A. R. Bhatt to go into the various aspects of the problem and draft legislation for small-scale industries. The Committee has since submitted its Report and has made recommendation for enacting suitable legislation in areas such as definition of small industry, restricted partnerships, development of ancillary industries, reservation of items, public purchases from and disposal to small sector, collection of statistics, raw materials, and modernisation. We recommend that various recommendations of the Committee should be considered and given effect to in the form of a legislation by the Government at an early date. The sooner it is done the earlier it would set in the process of generation of more employment opportunities through orderly and planned development of modern small-scale industries.

Wage and Welfare Legislation :

4.50. Wage differentials have also played an important part in the development of small-scale industries. For instance, in Japan, workers' average monthly earnings vary according to the number of workers employed by an enterprise. *While the monthly earnings of workers in an enterprise employed one thousand or more workers are the highest, the earnings in a unit employing 1 to 4 workers are the lowest. In India also the wage levels tend to be lower in the small-scale units than those prevailing in the organised large-scale industries. Although the long-term need for improving the wage levels and other welfare measures for labour does certainly exist, undoubtedly at the present moment unemployment is very much the more important problem and in the light of the need for taking all measures necessary for reducing the level of unemployment, it would be desirable to moderate the pace of welfare and wage legislation so far as small-scale industries are concerned. It would also be useful to remember in this connection that, as such legislation extends to smaller units, administrative difficulties will prevent effecive implementation and it would be very desirable to avoid such widespread evasion and disrespect for law.

Consultancy Services :

4.51. Promotion of competent entrepreneurship for the small-scale sector in general and self-employment in particular is handicapped, inter alia, by inadequate consultancy services. As a consequence many bright projects in this sector become infructuous.

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*Entrepreneurship in Small Enterprises in Japanese Manufacture—By Susumu Watanabe (International Labour Review, Vol. 102, No. 6—December, 1970, p. 549).

The DC(SSI) and the National Productivity Council have some arrangements for providing consultancy services to the small-scale sector. In the Central Small Industries Development Organisation, this service (technical, managerial and economic) is rendered to the existing small industries and new entrepreneurs by the 16 Small Industries Service Institutes, 5 branch institutes and 65 Extension Centres and Production-cum-Training Centres located at various places of industrial concentration. But these facilities are inadequate looking to the size of the problem. Consultancy services, specially geared to meeting the requirements of the small-scale units need to be substantially expanded.

4.52. These facilities have to be provided at a reasonable payment to the potential entrepreneurs. We consider it desirable that project profiles should be made available at a nominal cost. In so far as detailed technical consultation is concerned, the cost should be met partly by some grant (as is being done by the Tamil Nadu Government) or by giving a grant which is capitalised if the project matures as is being done by the State Industrial Investment Corporation of Maharashtra or by interest-free loans to be recovered at the stage the enterprise starts functioning.

4.53. The position regarding consultancy services for production/management is that D.C.(SSI's) organisation and N.P.C. have been imparting such training to small-scale entrepreneurs. The training facilities made available in this context are concerned with manufacturing processes, costing, pricing, marketing, invetory control, financial management, industrial relations, productivity, sub-contracting, diversification of production, etc. Since the Organisation of the Development Commissioner Small-scale Industries and Small Industries Service Institutes were conceived over a decade ago, they are no longer properly equipped to meet the diversified requirements in terms of identification of new investment opportunities and technical consultation of new small-scale industries. It would, therefore, be essential to adequately strengthen the Small Industries Service Institutes with qualified and experienced staff to provide detailed consultancy services. It should also be possible for the National Productivity Council, the banks and the financial institutions to strengthen their organisations to perform this role in a big way.

V

Choice of Technology

4.54. Apart from the industry-mix an important factor to be taken into account while choosing a pattern of industrial growth appropriate to the creation of larger employment opportunities would be the choice of appropriate technology. The technology-mix which is relevant to developed countries is not always appropriate for the developing countries. It is often weighted heavily in favour of capital, labour being a scare factor in developed countries. In so far as there has been a tendency to draw upon imported technology from advanced countries for our industrial growth, there has been a restriction in the scope for employment generation. Capital intensive technology has been introduced in most of the projects as a result of tied credits, inter-country agreements, lack of scrutiny of project reports and a feeling of "going modern". In addition, fiscal policies of the Government like development rebate, low interest rates, etc., have also contributed to this situation. Since the maintenance of harmonious labour-management relations is becoming increasingly difficult, entrepreneurs prefer machines to labour wherever possible, thereby aggravating the problem of unemployment. We feel that administrative policies should be reviewed and modified so that built-in bias toward capital intensive machinery because of such extraneous factors is removed and loss of employment opportunities on this account avoided.

4.55. The opportunity for scrutiny of the type of technology required in a particular industry arises in three ways. In certain cases it will be possible at the stage of consideration by the Licensing Committee itself to so devise the investment proposition that the capital intensive nature of the project is diluted either by sub-contracting or by suggesting changes in technology. At the stage of foreign collaboration, the availability of indigenous technology, particularly of a labour intensive nature can be brought out and application for foreign collaboration refused or modified on that basis. At the time of clearance of capital goods also it is possible to see that unnecessary capital intensity is not brought out. As it is, the Department of Science and Technology are now being represented in the Licensing Committee as well as the Foreign Investment Board. Any scrutiny in their hands has necessarily to be quick enough as not to prolong the time taken for consideration for industrial licences, or foreign collaborations. It would be useful and desirable if a shelf of alternative and appropriate technologies is built up so that with reference to a list of such technologies cases should be considered speedily. It needs to be emphasised in this connection that the technologies which are suggested should be capable of commercial application, as otherwise in the hope of evolving some technology in future the existing projects are not held up.

4.56. The above measure in itself may not go far in countering the disturbing trend towards capital intensity in industrial production. The real solution lies in devising technologies which are more suited to our factor conditions particularly in relation to abundance of labour. Japan's economic growth since the Meiji Restoration of 1868 shows that a programme of adaptive modernisation would, in the long-run, generate conditions where substantial growth is possible rather than indiscriminate copying of Western machines. The need for appropriate technology was recognised in the Approach Document to the Fourth Five Year Plan where a definite shift in investment towards economically sound labour intensive industries rather than capital intensive industries was suggested.

4.57. Consistent with the policy laid down in the Fourth Plan and the urgency necesssitated by the deteriorating employment situation, the Government of India had constituted an Appropriate Technology Cell in the Ministry of Industrial Development for indentifying suitable technologies in important sectors of the economy and to recommend suitable measures which would help in the adoption of such appropriate technology. The Cell in cooperation with various interested organisations and groups in the country as well as other international agencies organised a National Seminar in April, 1971 to review the entire subject and to identify areas where the application of the concept would yield most useful results. It was noted during the discussions that while there were many areas where the approach implied in appropriate technology was valid, it was necessary to confine attention to specific sectors which were important from the point of view of the national economy and where significant success could be achieved by virtue of the large number of people involved in them. On this basis, the Cell has identified certain areas which are most suitable for formulating and implementation of appropriate technology. These are: leather (including tanning), ceramics (including pottery), scaling down of large sized plants (in areas such as cement, sugar, paper, etc.), food processing and preservation, agricultural tools and equipment, road building and construction.* Studies have been initiated in these areas and relevant information is being collected.

4.58. In the industrial sector, appropriate technology could be developed to demonstrate the feasibility of using the indigenously available raw materials particularly agricultural raw material based on the results obtained at the National Laboratories. Such processes. as the manufacture of carbon from coir husk, pectin from papaya, fat from the sal tree, paint from cashew shell, protein from cotton seed and many other similar processes, have to be operated on a pilot plant scale with a view to demonstrating their feasibility. In the sector of traditional rural occupations, appropriate technology has a role to play in improving the productivity of the existing processes. In weaving, the power loom represents a stage of "Intermediate" industrialisation that is becoming popular in certain parts of the country such as Maharastra. Similarly, in agriculture, the power tillers are an example of improved tools that can be utilised on small plots of land with increased productivity. Even in large projects such as irrigation dams and roads construction, the productive use of man-power can be increased significantly without increasing cost or reducing quality. In the matter of housing, simple designs for brick manufacture and low cost housing have been evolved in the country which need to be industrially exploited on a large scale. The storage of water in arid regions is another area where devices have been developed to intercept rain water before reaching the soil and preventing loss due to evaporation.

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*Proceedings of the Seminar on Appropriate Technology, Appropriate Technology Cell, Ministry of Industrial Development, Government of India (April, 1971):

4.59. The possibilities in the application of appropriate technology given in the previous paragraph are merely illustrative and not meant to be exhaustive. There is indeed limitless potential in every sector to see how existing techniques conform to the major objectives of providing productive employment opportunities on a wide scale. In view of the great deal of scientific effort involved in developing appropriate technology, it would be necessary to make a deliberate effort in this regard. Results of the research thus initiated would have to be examined and recommended for application at the highest level so that benefits in terms or larger employment opportunities are available quickly.

4.60. In view of the importance of this work we feel the necessity of strengthening the Appropriate Technology Cell which is at present located in the Ministry of Industrial Development. It should be suitably reorganised, expanded and staffed by a competent inter-disciplinary team of technologists, economists and sociologists under the administrative charge of the Ministry where it is considered appropriate.

It should also have the responsibility to sponsor research schemes in National Laboratories and generally stimulate research and development work in this important field. It may also be empowered to operate pilot projects and conduct field demonstrations with a view to assessing the utility of particular devices and equipment from the point of view of appropriate technology. Further, it should have an effective voice as an operational agency, in advising the Government on the relevance and suitability of particular technologies to be adopted in the establishment of new capacities in various industries.

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4.61. In this connection, however, we wish to reiterate that economic viability is the paramount criterion in the application of any technology-mix in a particular situation. We are well aware that mere employment by itself cannot be a goal; what is required is a judicious combination of various factors (of which technology is now recognised as an important parameter) so that the labour is most productively utilised for the benefit of the community and the country as a whole. After all, in a country like India if man-power is the biggest single resource we have, it seems to us logical that a special effort must be made to tap this vast potential in a most productive manner.

4.62. Apart from the emphasis on appropriate technology, encouragement has to be given in general to the development of indigenous technology. This has many advantages including creation of employment opportunities for Indian scientists, technologists and engineers who will be engaged in the development of indigenous technology and its adoption by the industry. Also the technology that would be developed indigenously will be more suitable to our conditions than that imported from other countries.

4.63. The Government have established organisations like the National Research Development Corporation of India (N.R.D.C.) in the country for developing and commercialising the indigenous technology. Full support should be given to the activities of N.R.D.C., C.S.I.R. and other similar organisations who are dealing with the development and utilisation of indigenous technology as a means of creating more employment opportunities in the country.

VI

Encouraging Self-Employment

4.64. Creation of additional employment opportunities will have to be supplemented with self-employment activities to encourage new entrepreneurship and increased production in the industrial sector. Widening of the entrepreneurial base is also vital in view of the bigger role envisaged for the small-scale sector in the pattern of industrial growth proposed by us. While a number of measures have been taken for the creation of self-employment particularly among unemployed engineers by way of financial assistance and technical support, one of the main problems faced is of finding an appropriate market for the products. There is also the problem that fresh graduates, without any industrial or commercial experience, are not particularly successful in establishing industrial ventures, even if the other requirements such as financing are provided to them. Such persons have, therefore, to have a period of nurturing by actually working in some industry during which they are able to gain the necessary experience and confidence to stand on their own legs. This kind of support can be provided primarily by the existing industries and industrialists. It is, thus, possible to conceive of a major industrial unit identifying potential small entrepreneurs, providing them with the necessary technical and managerial support to set up new units and giving them assurance of market for their products, either through direct purchase or through their marketing organisations. There is at present no incentive promoting development in this manner and where some effort has been made it has been largely with a view to taking full advantage of the parent ancillary relationship. We consider it necessary that suitable encouragement, be provided to industries which promote small-scale industries under their protective umbrella on the lines suggested above.

4.65. The Ministry of Industrial Development have drawn up schemes for educated unemployed and for self-employment of engineers, as part of the programme for dealing with the problem of unemployment. Primarily, these schemes provide facilities for training of selected engineers, technicians and unemployed skilled men and imply assistance to them in setting up of small industrial units. The objective is to provide the educated unemployed with facilities like seed money, availability of industrial sheds, purchasing facilities to buy machinery, etc., to set up industrial units. In the case of unemployed engineers the scheme envisages training programmes and subsidy on interest of loans given by the financial institutions. These schemes were initiated in 1971-72. The experience so far with respect to the implementation of these schemes has been limited, but it would seem that the original expectations in terms of additional employment have not been adequately fulfilled. Both in the context of industrial growth as well as provision of employment to technically qualified persons, opportunities for self-employment have to be fostered sedulously. With this end in view, we suggest that the schemes drawn up by the Ministry of Industrial Development be reviewed in the light of the experience so far an suitable adjustments made therein with a view to making them more effective and purposeful.

4.66. The Working Group is convinced that in the context of the massive proportions that the problem of unemployment has assumed in India and the limitations in generating an equally massive increase in factory employment and Government service, there is no alternative but to create conditions for the growth of self-employment on a very large scale. The Group realises that such growth in self-employment requires a particular milieu which is not prevalent in our country. To a considerable extent, the growth of self-employment, would need a certain attitude which no doubt gets partly generated out of the compulsive forces of necessity but has partly to be nurtured. The long-term problem is one of creating conditions for the growth of self-employment through orientation of our educational programmes, particularly those of the vocational types. This is a task which needs careful examination and exploration, for any advance we could make on this front would add a new dimension to our endeavours in enlarging the area of employment. No doubt, short-term measures towards the same effect have already been taken and the schemes already initiated for the growth of the small-scale industries and the encouragement to techno-entrepreneurs are all intended to create conditions for such self-empoyment. In the industrial field where the number of manufacturing operations necessarily require a group of persons rather than a single person or a few persons, the concept of self-employment really gets translated into the encouragement to small and new entrepreneurs. The important thing to recognise is that self-employment cannot be considered as someting second best or socially inferior. It is a legitimate, fruitful and socially necessary exercise of individual initiative and effort in the context of the realities of the modern economy. The path may appear arduous but the reward, both material and psychological, is much greater.

VII

Dispersal of Industries to Backward Areas

4.67. Though the problem of unemployment afflicts the country as a whole yet the backward areas suffer the most in view of its acute nature there. The industrial growth so far has been mainly confined to developed areas which have led to concentration of industrial activity in a few pockets. This has led to migration of the rural youth to the metropolitan areas, resulting in a host of problems like congestion, over-crowding, slums, etc. With a view to developing backward areas and at the same time fighting problems of unplanned urbanisation, it would be essential to spread out the setting up of industries to semi-urban and rural areas, particularly those which are undeveloped and underdeveloped. This would help generate employment on dispersed scale and avoid the rush towards urban areas.

4.68. The problem though stupendous, has been engaging attention since the announcement of the Industrial Policy Resolution of 1956 wherein stress was laid on the importance of dispersing industries to achieve regional balance and coordinated development. This also has been reflected in the basic objectives of the Five Year Plans. The programmes of Community Development, Khadi and Village Industries Commission, the Centrally Sponsored Scheme for Rural Industries Projects, etc., are directed towards this end. To accelerate the pace of industrial development of the backward areas and to suggest corrective measures, the Government of India appointed two Working Groups in 1968, one for "Identification of Backward Areas" popularly known as the Pande Working Group and the other for recommending "Fiscal and Financial Incentives for starting Industries in Backward Areas", the Wanchoo Working Group. The Pande Working Group identified over 200 districts and 8 Union Territories as backward areas. On the basis of the recommendations of these Working Groups the Government of India have announced a number of concessions and incentives which are expected to help in the process of industrialising the backward areas.

सत्यमेव जयते

4.69. Further, the financial institutions *viz.* the Industrial Development Bank of India (I.D.B.I.), the Industrial Finance Corporation of India (I.F.C.I.) and Industrial Credit and Investment Corporation of India (I.C.I.C.I.) have also formulated and announced certain proposals for assistance to small and medium industries in backward areas on liberal terms.

4.70. Besides the incentives offered by the Government of India and the financial institutions, several State Governments also provide special concessions for the development of industries in their backward areas. These include liberal financial assistance, priority in the approval of schemes, allotment of developed industrial plots at concessional terms and conditions, rebate on electricity tariff, refund of sale-tax on purchase of raw materials as also on finished products, exemption from octroi duty, State's contribution towards cost of preparation of feasibility studies and preferential treatment in the matter of Government purchases. These concessions vary from State to State.

4.71. While these concessions are helpful, these by themselves are not likely to lead to an accelerated industrial development of the backward areas. The actual results achieved so far, after the announcement of the various concessions, are somewhat patchy. Along with these concessions, it seems therefore, necessary to take active promotional measures to develop industries in these areas. Such promotional measures would include the provision of infra-structure facilities, the identification of suitable industries for development on the basis of the resource and market potentials in these areas, the nurturing of suitable entrepreneurs and the provision of management and financial support for the establishment of industries so identified. Further, in order to have a full impact of the industrialisation in the development of the backward areas, industries have to be so chosen as to have an organic reationship with the economy of the area and to provide the necessary forward and backward linkages. A lead in this direction has to be provided by the State Governments concerned in association with the financial institutions under the aegis of the I.D.B.I. and the lead banks. Institutions of the type of Kerala Industrial Technical Consultancy Organisation (KITCO) would need to be set up in the backward States to undertake surveys and to provide the necessary consultancy services for the development of the backward districts. We recommend that the action initiated in this direction should be substantially strenghtened and necessary institutional arrangements set up in all the States concerned.

VIII

Traditional, Village and Small Industries

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4.72. Maintenance of present levels of employment in certain industries is also essential to prevent further deterioration of the situation. These industries could be classified in two groups: (i) traditional village and small industries, (ii) sick and closed units, both in the large and small-scale sectors.

4.73. Some of the important industries under this Group are handloom, khadi and village industries, sericulture, coir, cashew, bidi, handicrafts, etc. These industries currently provide employment to more than 10 million persons, among relatively vulnerable classes and widely dispersed in rural and semi-urban areas; handloom provided employment to 3 million persons; khadi and village industries provided employment to about 2 million persons in 1970-71 (full-time employment to 2·21 lakh persons and part-time employment to 16·99 lakh persons); sericulture provided part-time employment to 3 million persons by the end of the Third Plan; coir industry provided employment to over 0·8 million persons in 1968-69, bidi industry privided full-time and part-time employment to over 2 million workers in 1970-71 and handicrafts provided employment to about 13 lakh persons in 1970-71.

4.74. These industries suffer, inter alia, from inadequacy of institutional credit and poor techniques. Because of these handicaps they are not able to sustain the present level of employment and would peter out in the face of competition from relatively modern sector.

4.75. The position in respect of institutional credit has improved after the nationalisation of banks in so far as small-scale industries are concerned. However, the problem still remains for industries such as coir, sericulture, bidi and other rural industries. The types of credit and the terms and conditions on which these are provided are also not such as to help these industries achieve economic viability. In view of the large-scale employment being provided by this group of industries, the Group considers that the institutional credit should be made available to them on liberal terms taking into account their requirements.

4.76. With regard to poor techniques, it may be mentioned that one of the objectives of the programmes of the Fourth Plan was to improve progressively the production techniques of these industries so as to enable them to produce quality goods and to bring them to a viable level. However, according to the Fourth Plan Mid-term Appraisal, this objective has not been achieved in any significant or widespread sense. Since the upgrading of techniques in traditional industries is of crucial importance for their viability and sustenance of existing levels of employment, the Group feels that the concerned agencies should take up programmes on an immediate basis for the improvement of skills, designs and production techniques. Such programmes could be spread over a number of years as suggested by the Ashoka Mehta Committee for khadi and village industries. In the meantime, fiscal support measures in their present form should continue and be extended to those industries not yet covered. It should, however, be ensured that protection to these industries does not become a vested interest and thereby stands in the way of technological progress.

4.77. The Group feels that the basic strength and rationale of our policies to support and encourage village and khadi industries are derived from the realisation that they are the only means to decentralise industrial activity to the village and household levels and thereby provide employment on a widely dispersed scale. The Group feels that this basic rationale, namely, decentralisation to the village and household level and creation of employment thereby should be extended to other industrial activities instead of necessarily being confined to those which are traditional. There is need for an expert investigation as to how far some of the activities of the modern industrial sector could be decentralised to the village and small-scale levels. For example, Japan is said to have achieved a measure of success in this regard. and industries like electronics, where components are required on a mass scale, may be susceptible to such decentralisation.

4.78. We do not claim to have a ready list of industries in which such decentralisation or the provision of components from the village and house-hold level to the modern industrial sector is possible. That is why we have urged the need for an expert investigation. We feel that the extension of the concept of decentralisation to the modern industrial sector will impart a new and dynamic dimension to our concept of decentralisation and will cater in particular to urban areas where the need for employment exists but the scope for, and the experience in traditional industries are limited. After investigation into such possibilities, one or two pilot projects could quickly be taken up and on the basis of the results, the potentialities of extension can be assessed further.

IX

Sick and Closed Units

4.79. Another area where protection of existing levels of employment is necessary with regard to sick and close units. Government have already taken a number of measures to deal with this problem. These include the enactment of the Cotton Textile Companies (Management of Undertakings and Liquidation or Reconstruction) Act empowering Government to take over the sick textile units, the setting up of the National Textile Corporation for financing and managing these mills, the amendment to the Industries (Development and Regulation) Act giving Government powers to take over the management of other industries, etc. The National Textile Corporation has so far taken over about 60 sick textile units. Among other industries, Government has recently taken over the management of the Indian Iron and Steel Company where production was going down for quite some time. These steps would no doubt improve matters. However, the Group is of the view that in industries like textile and sugar where large-scale employment is involved, priority should be given for modernisation so that closures on this account are avoided. An institutional approach capable of providing technical, financial and managerial assistance is imperative for the modernisation of these industries.

X

Fiscal Incentives

4.80. We do not propose to cover the entire gamut of taxation, although we are conscious that income and wealth taxation are highly relevant to the growth of the industrial sector, particularly to encourage new entrepreneurship and broad-base industries. Our proposals will deal with three specific areas, viz., the growth of industries in backward regions, development of the priority industries and the stimulation of the small-scale industries. However, it must be appreciated that development is organic. It is far from our intention to treat the different sectors as independent entities. If we have chosen the three sectors for special mention, it is because they have special significance in creating larger employment opportunities.

Tax Concession for Investment in Backward Areas :

4.81. The capital subsidy of 10 per cent at present allowed has not so far attracted any significant investment in the backward areas. The reason is that cost (and other) disadvantages of locating industries in backward areas more than offset the 10 per cent subsidy (which may or may not equal even the higher capital costs of projects in backward areas, let alone the higher operational costs—owing to transport difficulties and other problems in the backward areas).

4.82. A mere priority treatment of an industry set up in backward region may not be sufficient inducement for new investment. The net advantage would not be adequate enough to offset the disadvantages of locating the project in a backward region. While industries will not have the benefit of external economies and adequate trained labour, they will have to bear additional transport cost and have to build houses for re-location of labour and so on. It may be worthwhile, therefore, to supplement this benefit of capital grant by giving loans at bank rate either by the financial institutions or the Life Insurance Corporaton for an initial specified period. Since this will involve loss to these institutions it would be necessary to reimburse them to the extent of service charges.

4.83. In addition, it will be necessary to consider whether relief in indirect taxation could be provided. Here, the support of both the Central and State Governments will be required. For the first five years or so after the commencement of production, the tax receipts from excise duties can be given back to the industry. Such units should also be exempted from the payment of sales tax and octroi duty for an initial period of five years. Also transport subsidy equivalent to 50 per cent or more, of the transport cost of raw materials and finished goods would have to be extended to certain other inaccessible backward areas apart from those already done.

4.84. The above suggestions will cover any industry in the backward region irrespective of the size of the industry.

Priority Industries :

4.85. *Prima facie*, employment in the core and heavy investment industries by itself will not be massive. But these industries have a very strong backward and forward linkages which create a multiplier effect on employment in industries and tertiary sector. These industries should be treated as priority industries for purposes of taxation and also for allocation of rupee finance and foreign exchange. The list of priority industries should also be reviewed periodically.

4.86. A Committee constituted by the Ministry of Industrial Development in January, 1972 for drafting legislation for small-scale industries had examined inter alia the question of fiscal incentives. The relevant paragraphs are reproduced below, for in our opinion the recommendations made therein merit consideration of Government.

> The present differentiation in tax structure between partnership firms and limited companies has brought about hardship and has stunted the growth of partnership firms. In the case of limited companies there is a uniform rate of income tax of 55 per cent and salaries and allowances of directors are allowed as deductible items for computation of taxable income, Similarly tax deductions are available for employer's contribution to provident fund, concession by way of rent allowance or travelling expenses while on leave, gratuity upto Rs. 24,000 etc. However, in the case of partnership firms interest and salary received by partners become liable to tax not only in the hands of individual partner but also in the hands of partnership. In the case of persons who give up service and set up business on their own as partnership firms, they not only lose the tax-free benefits available to employees, but in addition they are burdened with a tax on registered firms. We would like to reiterate that in determining taxable income of any organised business entrepreneur, cost of all inputs or factors of production including personal exertion of partners or capital and loan put in by partners should be recognised and deducted. We support in this regard the recommendation made by the Direct Taxes Enquiry Committee that dividend upto 8 per cent of the paid-up capital or Rs. 25,000 whichever is less, be deducted in computing total income in the case of small companies. Further in the case of registered firms or restricted parterships as suggested by us, reasonable remuneration paid to the working partners and reasonable interest on capital or loans contributed by the partners should be deducted in ascertaining the profits of the enterprise for purposes of taxation.

Depreciation Allowance:

4.87. Development rebate, it has been announced, will be discontinued after 31st May, 1974. Whatever the effects of this rebate might have been on the choice of techniques, it has been greatly helpful in strengthening the finances of the industry, small and big. In a situation of rising prices of equipment and machinery, it will be necessary to device a scheme by which the total accumulated depreciation is adequate enough to cover up the replacement cost of plant and machinery. One way to do this may be to mark up the initial value of machinery and equipment by a proportion equal to rise in prices. Such a mark up can be done on a periodical basis. This facility should be available to industries on a selective basis.

Weighted Deductions :

4.88. With a view to inducing greater use of labour intensive techniques of production, expenditure on wages can be treated more favourably for tax purposes. For example, the wage bill can be given some weightage, say, equal to 1 and 1/10 for purpose of calculating taxable profits. If the wage bill is Rs. 100 as a deductible item, it would be taken as Rs. 110.

4.89. Every inducement should also be given to run almost every industry on a three-shift basis. It would mean greater employment and greater production with the same capital investment. At present, the only inducement that is available to the industry is higher depreciation on the additional shift, an additional 50 per cent for the second shift and another 50 per cent for the third shift. As every additional shift will increase employment, the possibility of increasing the depreciation allowance for the additional shifts has to be thought of.

4.90. A more positive inducement can be in the form of tax rebate on increased production through additional shift working: e.g. in the case of industries where the processes are not continuous, tax credit can be made available in respect of additional production attributable to the third shift. This tax concession can be by way of a rebate of 5 to 10 per cent in the normal excise duty.

4.91. All these concessions and incentives that have been outlined may have some revenue implications in the short run. But in so far as such concessions and incentives will provide greater employment and increased production, they have to be viewed as investment in social welfare. In any case, the stimulus towards economic activity will benefit the exchequer.

XI

Some Questions Raised

4.92. We have in the previous sections raised and discussed a number of points relating to the growth of industrial production in general and the extent to which orientation needs to be given for the sake of greater employment, in particular. The points we have thus raised and the suggestions we have made are related essentially to the frame-work of the existing policies and, to put it provocatively, on "conventional wisdom". We are aware that it would be unrealistic to suggest operational measures which have no bearing on existing policies. Nor do we wish to minimise the thinking that has gone into the existing policies and the substantial effect that they have had on accelerating industrial growth. What we would like to emphasise at the same time is that there is need for a periodical examination of the basic logic and direction of our policies. In this section we want to raise some basic questions that we pave the way for further introspection and discussions. The thrust of these questions is whether, considering the enormity of the problem of unemployment that is facing this country, we should not adopt a fresh and much bolder approach to the problems of industrialisation rather than effect marginal or minor improvements. No doubt minor and marginal improvements can be more easily done and the path of implementation of such suggestions runs much smoother. There is also, no doubt, that industrial growth alone cannot solve the problem of employment and this is something which needs to be borne in mind. But given these limitations, we have to ask ourselves whether we are doing our best in the matter of industrial growth for removing unemployment? It is within this broader frame-work of thinking that we would like to raise some questions briefly. We do not really answer these questions here nor do we suggest that simple answers exist to mese questions. But if the problem of unemployment is to be solved and we do seriously apply ourselves to this task, we have to constantly ask ourselves, whether we are doing all that is necessary to enable growth of production and give a definite orientation to employment in such a growth.

4.93. The first question concerns the capacity of the administrative system within the framework of existing regulations and provisions to service the growth of production. The Fourth Five Year Plan envisaged an investment of the order of Rs. 5,000 crores in the industrial sector. The Mid-term Appraisal shows that this order of investment is not likely to be reached. The Fifth Plan is expected to be much larger in size and the industrial component of the Fifth Plan both in the public and private sectors is bound to be larger. There are already complaints of delays in the disposals of applications of various kinds such as industrial licensing applications, foreign collaboration applications, capital goods applications, raw material applications, M.R.T.P. applications and so on. A larger Plan would necessarily mean a larger number of applications to be processed and decided upon. There is also need for quicker implementation of projects than is at present possible. In such circumstances the question is whether given the existing regulations and provisions, we can really expect any administrative system to be capable of bearing such a heavy burden and discharging its task with the speed required, and moving specifically and whether some drastic changes, rather than marginal modifications, would not be required in the existing regulatory framework.

4.94. A second question is something which we have raised already briefly, namely, whether considering the size of the problem of unemployment and the importance of being earnest in tackling it, we should not create deliberate policy imbalances through setting up of employment oriented industries in a large measure. By and large, the object of our industrial licensing is that the use of scarce resources should be regulated and canalised into fields of priority in the national economy. The question is one of scarce resources both rupee resources and foreign exchange. The approach is then to allow only that measure of resources in particular sectors as will be consistent with an overall general approach, which seems to us to be, except in a broad sense, implicit and ad-hoc to allocation of scarce resources. Within this framework, employment oriented industries obtain no special recognition except to the extent it is consistent with reference to their priority within a scheme of scarce investible resources and scarce foreign exchange. But if the whole question is viewed from the point of view of employment and the promotion of employment itself becomes one of the guiding principles for the allocation of scarce resources, the picture will be somewhat different. In order to provide employment, we consider that there will be no overall harm to the country if more resources are canalised into employment oriented industries as a matter of deliberate policy. Where there is an absence of demand, no doubt, the scope for canalising such resources will exhaust itself. But in our view, there are at present enormous potentials of demand for such labour oriented activities as road transport, construction work, etc., all of which have a definite industrial component. With more road-construction and more road transport, existing needs will be met in a better manner. The country will certainly not be the loser if its citizens can travel in buses which are not overcrowded and if villagers are able to move to and from urban areas more quickly and easily. Cheap and plentiful transport will not only be a blessing in itself but an important instrument for the promotion of labour oriented industrial growth as well. The same goes for construction activities related to say roads or housing. It should be possible in our view to identify a set of employment oriented industries and give them a deliberate and massive push, even if it means that our present concept of a "balance in investment" of scarce resources is disturbed. There can, in fact, be no better investment of scarce resources than that which can activate and catalyse the use of abundant resources lying unused.

4.95. It is, therefore, our conviction that Government should draw up a list of industries in which it will make special efforts to create very large capacities which will activate employment and production. In such a category we would also like to include the industrial goods that will be necessary to enable plentiful and cheap supply of the minimum basic needs of the common man—which is one of the central principles in the approach to the Fifth Plan. Likewise, in respect of small-scale industries where there is scope for substantial industrial investment, such as the ones we have mentioned in an earlier section, there must be a much larger and more concerted drive to establish new industries.

4.96. Another basic question we would like to raise is whether the industrial licensing system has worked and produced the results expected of it and whether there is any alternative to it which is more efficient and less cumbersome. While the licensing system has broadly secured an allocation of investible resources consistent with Government's approach from time to time, there have been a number of shortcomings also resulting, among other things, in shortages in some commodities and surpluses in others, delays in implementation of projects, difficulties of entry for new and middle entrepreneurs etc. We take note that the system has been liberalised in a number of ways both by raising the exemption limit from Rs. 25 lakhs to Rs. 1 crore and by allowing substantial expansion upto Rs. 1 crore for certain classes of undertakings, subject to certain conditions. But these very concessions also make the system of allocation defective since a fair portion of economic activity except in highly capital-intensive fields is not subject to the dictates of the allocative mechanism.

4.97. We realise that there are, at least, two important reasons why the licensing mechanism has become an unavoidable part of our economic system. Firstly, there is a need to regulate the activities of larger industrial houses and foreign concerns, so as to avoid the concentration of economic power. It is also necessary to ensure that for the proper development of the small-scale sector certain items are reserved for it and medium and large-scale units are prohibited from making new investments to manufacture them. So far as categories like larger industrial houses and dominant undertakings are concerned, we have now the Monopolies and Restrictive Trade Practices Act which can secure our objectives in regard to concentration of economic power. So far as foreign majority companies are concerned, the Foreign Exchange Regulation Act could be amended, to make it tighter to secure its regulation. To give necessary protection to the items reserved for, the small-scale sector, a separate legislation can be undertaken or a general exemption through licensing may be given to all industries except those reserved for the small-scale sector. In addition, if considered necessary, core sector items may also be made licensible.

4.98. The question then would arise as to how far the allocation of scarce resources will be secured. So far as internal resources are concerned, the banks and public financial institutions should be given clear guidelines as to the level of priority that Government attaches to different types of industries. The resources can then be canalised by these institutions on that basis. As regards scarce raw materials and foreign exchange, in general, even now licensing does not provide for a meticulous allocation of foreign exchange. There has, indeed, to be a separate raw material policy which gives priority to certain sectors rather than others.

4.99. We do not claim to have discussed this entire question in any depth nor to have come to any definitive conclusions. But we do think that this is a question to be seriously raised and a group of economists and other experts should be asked to go into it. To some extent, the whole question is really the familiar battle of choice between fiscal and monetary measures and direct controls. To the extent that direct control through licensing has given rise to a number of problems, it behoves us to consider as to how far fiscal and monetary measures will serve the purpose.

4.100. Another important question is whether we are really doing any serious thinking about promotion of labour intensive technology. We consider that the efforts in this regard are woefully inadequate and perhaps we have not really made a start at all. We feel that some of the best minds in the country should go into this question of creating necessary institutional arrangements for the development of labour intensive techniques. In the absence of clear alternative technologies neither the incentives nor the disincentives that we may provide in order to enforce greater labour-orientation, will really have the desired amount of effect.

4.101. A further fundamental question is to fashion our education policy to make it more oriented towards vocational employment and towards creation of a more employable population with reference to the needs of the country, rather than the existing wasteful system handed down from pre-independence days. To begin with, our education policy must be oriented towards makings all citizens capable of working with their hands, on the farm, in the factory, on construction jobs and in every other area of gainful employment. It is only through the raising of the level of productivity of the average worker in this manner, and by broadening his outlook and confidence that the country can hope to achieve a faster rate of growth as well as to solve the problem of massive unemployment which exists in the country today because of the existence of vast numbers of what may be termed as 'unemployable' educated people.

4.102. Coupled with this policy, the Workig Group feels that it is of the essence for the country to evolve a proper incomes policy which would be such as would permit increased employment of those who are today among the ranks of the unemployed. There exists today not only wide disparity in the level of incomes and wages, it also happens that the minimum wage level in some sectors of the economy is such as would keep out of the fold of unemployment a very large section of the population today. What must be realised in this connection is that although the rewards or compensation of labour are today essentially determined on the basis of the level of productivity and profits of individual industrial undertakings, such high productivity is obtained at a high social cost or social expenditure, by way of infra-structure facilities, incurred by the tax-payer in general and by way of environment and other opportunities which are widely divergent for different industrial undertakings, for which neither the individual employer nor the workers in any particular undertakings have contributed directly. It is, therefore, necessary to consider how best to classify jobs and to fix the remuneration for a task performed, and thereby to distribute the income generated from different activities in a manner as would promote greater employment. It may be reiterated in this connection that much of the advantage to an industrial undertaking today arises from social expenditure and social costs incurred by the community as a whole and not by the industrial undertakings itself. It is necessary, therefore, to think in terms of minimum and maximum levels of wages which would not be widely divergent or disparate, in a way that the minimum income both permits the employment of the large masses of the population unemployed today as well as permits of at least one member of each family coming a reasonable decent minimum earning for the family as a whole

4.103. To work out such an incomes policy may pose certain practical problems, particularly, because we are not writing on a clean slate. But once the problem is accepted, it should be possible to devise fiscal measures which would tax the undertakings which are beneficiaries of the social infrastructure created at the cost of the community and to subsidise others who are not so fortunate, in order to redistribute the existing incomes in a manner which will be more equitable and which would increase the overall average level of productivity in the economy.

4.104. The working Group feels that it is important to consider ways and means of achieving the ideal indicated above because the introduction of such a policy would lead both to an easing of the pressure for a type of education and training which is needlessly expensive to the community and which creates a large body of educated unemployed in the country and also contributes to a situation where the opportunities open to any worker are not limited by employment that he is immediately able to obtain in his particular environment.

4.105. Another question which the Working Group would like to raise for the consideration of the Government is the possibility of institution of an employment guarantee scheme of the type being evolved in Maharastra. The Working Group is given to understand that the Maharashtra Government have now initiated a scheme whereby any job seeker in the rural areas throughout Maharashtra would be guaranteed employment. In the immediate context, there would be significant employment opportunities in the short run for various schemes that have to be initiated over a very large part of the country as a result of the recent drought situation. But even over a longer period, it should be the responsibility of the authorities to evolve suitable schemes of local development, including facilities for the improvement of agriculture by way of minor irrigation schemes, improvement of transport facilities by way of road construction, construction of residential housing and improvement of water supply for drinking purposes, all of which have been given priority in the Approach Paper to the Fifth Plan as of very great urgency. Instead of such schemes being taken up in a random and sporadic manner, there should be a long-term programme for such activities. It is only through the guarantee of a minimum level of income to each able-bodied person in the country that a beginning can be made with the approach to the incomes policy outlined earlier, so that the available surplus labour in the economy can be put to use to raise the productive apparatus and labour productivity of the country. With the generation of such incomes and the creation of purchasing power, the overall level of consumption demand would also improve so that the opportunities for self-employment for increased industrial production will also increase. The Working Group feels that the proper implementing authority in this connection would be the district level authority, and would, therefore, recommend a greater integration between the central planning and local bodies and the allotment of funds from the Central auhorities for such detailed district level planning.

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CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

I

Conclusions

5.1. The broad approach and economic policy that has governed the industrial strategy during the period 1951-71 was one of strengthening the industrial base and flow of massive investments in this direction on the one hand and of maintaining or if possible, expanding employment opportunities in the village and small-scale industries on the other Employment *per se* was not considered an objective in itself.

5.2. Assuming tentatively, that there has been no increase in employment in the traditional industries where the emphasis has been one of maintaining rather than increasing employment, it may not be substantially incorrect to assume that the industrial sector as a whole has provided additional employment of only about four million during the last two decades.

5.3. Though contribution of the industrial sector in providing direct employment is limited, yet its indirect effect in generating a whole chain of multiplier effects in which increasing numbers of labour force come to be employed in trade, marketing, commerce, banking and other tertiary activities, are considered significant.

5.4. Larger employment opportunities in the industrial sector could be generated in the short-term, by accelerating the rate of industrial production. Growth of industrial production has been held back by the existence of unutilised capacity in a number of industries and insufficient new investments. Some of the important factors inhibiting fuller utilisation of capacity has been inadequate supply of critical raw-materials, shortage of power, transport bottlenecks, subdued demand for certain items and unsatisfactory industrial relations. Fresh industrial investments have decelerated in recent years on account of hesitancy shown in taking long-term investment decisions during the three Annual Plan (1966-69). There are indications of improvement in investment intentions as shown by the increase in the number of industrial licenses issued and flow of institutional funds and the step-up in investment in the public sector, though the actual investments in the first three years of the Fourth Plan period have been below expectations.

5.5. In the long-term, employment potential in the industrial sector could be increased by re-shaping the pattern and structure of industrial development. A reorientation of industrial development programmes would call for the maximisation of production in the less capital-intensive small-scale industries so far as it is technologically feasible. Further, orientation towards employment could be given by developing selected industries in which the necessary expertise, resources, etc. are indigenously available. A policy of creating deliberate imbalances in favour of industrial programmes having potential for larger employment opportunities would also pay dividends.

5.6. Larger employment opportunities could also be generated by adopting the technology-mix suitable to our factor endowment position. Since development of such appropriate technology may take time, attempts should be made to see that "modern" technology is not imported without reference to Indian conditions. The industrial policy has to be deliberately re-oriented to building an industrial structure on what we can produce rather than importing the latest and the most upto-date technology of the time.

5.7. For the development of backward areas, sustained efforts have not been made to ensure that industries are dispersed away from metropolitan concentrations. The dispersal of industries will create greater employment opportunities through the expansion of activities in the tertiary sector in these areas. It is, therefore, necessary that suitable measures should be taken to ensure that industries are set up, wherever possible, away from the highly developed areas. This could only be done through the creation of the necessary infrastructural facilities in such areas. A systematic attempt would also be necessary to ensure that a large number of ancillary units are set up around big industries in backward areas.

5.8. There are several traditional village and small industries which today provide large-scale employment and which are critical from the point of view of preventing the accentuation of the present employment situation. Some support measures already exist in respect of khadi and certain village industries, handlooms, handicrafts, coir, sericulture, etc. It would be necessary to adopt similar measures for other traditional industries to protect the present level of employment. At the same time, steps will have to be taken to make these industries economically viable over a reasonable period of time by upgrading their technology and by giving them necessary institutional support.

5.9. The problem of sick and closed units is another area where sustenance of existing levels of employment is necessary. Suitable measures would have to be taken to solve the technological, financial and managerial problems of such units in both large and small-scale sectors.

5.10. It is to be recognise that the industrial sector is not likely to absorb in the foreseeable future the great backlog of unemployment in the country. To remove this, steps will have to be taken to provide at least transitional employment to a large number of unemployed elsewhere in activities, such as, road construction, house building, minor irrigation. Such traditional employment will create a certain amount of purchasing power which will give an impetus to the growth of some industries to begin with and to industrial growth in general in due course. It is then that a number of those who at present can be provided with no more than transitional employment, on the rural works, will be gradually absorbed in more permanent employment in the growing industrial sector and in the tertiary sector which will grow along with the industrial sector.

II

Recommendations

1. While it may be expected that the various measures taken by the Government, in the long run, may bring about larger domestic supplies of essential raw materials required in various industries, there is an imperative need to keep a careful watch in regard to the overall supply/demand position of these critical raw materials, like steel, non-ferrous metals, etc. over the next few years and to ensure that realistic import programmes are drawn up well in time to maintain their satisfactory availability in accordance with the rising level of industrial production. (para 4.5)

2. In the short-term every effort will need to be made for fuller utilisation of the existing power capacity through better maintenance, reduction in transmission losses and strengthening of the transmission system so as to facilitate the transfer of energy from surplus to deficit regions. A crash programme on these lines will need to be drawn up and implemented. In the long run, power capacity should be substantially augmented somewhat ahead of needs along with arrangements for integrated operation of the power system with the establishment of regional load despatch stations. (Para. 4.6)

3. The current deficiencies in the transport system will need to be critically examined and remedial measures taken urgently. From the long-term point of view, transport planning will have to be more closely dovetailed and coordinated with the location of industrial projects and its transport needs. (Para. 4.7)

4. A comprehensive study of industries affected by demand constraint should be undertaken by the respective Ministries and the Central Small-Scale Industries Development Organisation in respect of small-scale industries in order to identify the factors responsible for the current situation, to examine the possibilities of diversification and to work out an integrated industry-wise programme to rectify the existing maladies. (Para. 4.8)

5. No effort should be spared to bring about conditions conducive to the creation of a favourable climate for industrial relations an essential pre-requisite to higher industrial production and more employment. (Para. 4.8)

6. In a capital-short economy, once industrial capacity has been created, whether authorised or unauthorised, it should be utilised to maximise production and employment. We suggest that the relaxation announced with respect to the 65 specified industries; may be suitably extended to other important industries. (Para. 4.9)

7. The concerned Central Ministries, Departments and authorities should review the existing machinery for collecting, collating and analysing information about the critical inputs, state of maintenance and other factors so as to effect improvement that would make the flow and analysis of such information regular and timely. Coordination would need to be effected, through inter-Ministrial group or otherwise to see that the information collected is used to monitor the situation and to take advance action to prevent the emergence of under-utilisation of capacity. The composition of any such group should be such that only those officers of the concerned Ministries/Departments are included who are directly responsible for implementing the decisions taken by the inter-Ministrial group. If quick results are to be achieved, it would be necessary to provide for special allocation of resources and simpler procedures. (Para. 4.10)

8. Advance preparatory action with detailed cost and time schedules and material procurement in construction planning should be undertaken urgently for new projects likely to be included in the Fifth Five Year Plan. Further, it will be necessary to have adequate arrangements within the projects and in the administrative Ministries to monitor the progress in implementation of projects and to take corrective action in advance, particularly in respect of industries like steel, power, petrochemicals, iron ore development, etc., which involve inter-sectoral inter-dependence. (Para. 4.13)

9. A detailed examination of the various regulations and controls as affect industrial growth should be undertaken well in advance of the commencement of the Fifth Plan with a view to analysing to what extent these are essential from the point of view of broader objectives proposed to be secured through them and to consider to what extent these regulations should be modified or done away with by simpler alternative instruments of policy. (Para. 4.22)

10. There is need to give a new orientation to the role of financial institutions by strengthening their capabilities in providing assistance to the new and medium entrepreneurs in terms of preparing feasibility reports and providing other consultancy services including trouble-shooting apart from giving financial assistance to them. (Para. 4.22)

11. There are certain industries having maximum employment linkage effects. When developed on a large-scale basis they generate considerable employment outside the industrial sector especially in the tertiary sector in the form of trade and services. It would be necessary to identify industries having maximum employment linkage effects and give relatively greater emphasis to their development in future within the overall constraints in the economy. Their identification should be done at a more disaggregated level and production of specific products encouraged. (Para. 4.25)

12. Industrial programmes in the large-scale sector should be confined to those items in which there are compulsions of technology and scale and where there is immediate need to augment the supply of mass consumption goods. Industries having maximum employment linkage effects and producing raw materials and intermediates should also go to this sector. There is also need for a coordinated programme which closely integrates the small-scale units with the large-scale industries in terms of backward or forward linkages. (Para. 4.27)

13. Greater emphasis should be given to the development of agro-industries in the future strategy for the promotion of small-scale industries. (Para. 4.30)

14. There is an urgent need to step up the coverage of the Rural Industries Projects Programme considering the magnitude of the problem of unemployment and under-employment in rural areas. (Para. 4.33)

15. In order to promote integrated development of large and small-scale industries and maximise employment opportunities through setting up of ancillary units it would be necessary to take the following essential measures:

(i) New and existing industrial undertakings which apply for licences should be compulsorily asked to farm out to small entrepreneurs such of those components and parts as are capable of being manufactured in the small-scale sector. They should also foster the development of ancillary small-scale units by providing them technical guidance, testing facilities and also encouraging qualified and experienced persons in their organisations to set up such units. (Para. 4.36)

(ii) Certain fiscal policies like sales tax and excise duties on parts and components fall on both the large-scale and small-scale units and thus act as a negative influence on sub-contracting. In this connection the possibility of introducing value added tax or any other scheme to avoid cumulative incidence of fiscal measures should be explored. (Para. 4.36)

(iii) Reluctance on the part of small units to enter into sub-contracting arrangements with large-scale units is mainly due to delayed and bad payment practices. There appears to be an urgent need for a legal framework governing such contractual arrangements backed by statutory authority to deal with complaints from sub-contractors. (Para. 4.36)

16. For promoting small-scale units around 'large industrial complexes' it would be necessary to set up 'sub-contracting exchanges' in different parts of the country on the pattern of 'exchanges' already functioning in Madras and Bombay. (Para. 4.37)

17. To cut down delay in the grant of loans and advances to small-scale units, there is need for coordination between the State Financial Corporations and the nationalised commercial banks. The applicant should be required to submit a copy of his project report each to the State Financil Corporation and the commercial bank. The loan for fixed assets could be granted by the State Financial Corporation and for working capital by the commercial banks. (Para. 4.39)

18. The levy of differential rates of excise duty should be designed to give a fillip to the small units. (Para. 4.40)

19. The various recommendations made by the Balachandran Committee with regard to equitable distribution of scarce raw materials to small-scale units should be implemented without further delay. In our view this single step more than anything else will provide maximum stimulus to the growth of the small-scale industries. (Para. 4.43)

20. In order to assist the small-scale units in marketing their products, the procurement procedures of the DGS & D and other Government procuring agencies should be simplified. (Para. 4.46)

21. States Small Industries Corporations should play an active role in the display and marketing of products of the small-scale units by setting up trade centres and retail outlets at important places. Further, cooperative marketing agencies by small-scale units may also be encouraged. (Paras. 4.47)

22. The recommendations made by the Bhatt Committee in its Report for enacting suitable legislation for small-scale industries should be given effect to by the Government at an early date. (Para. 4.49)

23. In the light of the need for taking all measures necessary for reducing the level of unemployment, it would be desirable to moderate the pace of welfare and wage legislation so far as small industries are concerned. (Para.4.50)

24. The project profiles should be made available at a nominal cost to the new small entrepreneurs. The cost of detailed technical

consultation should be met partly by some grant (as is being done by the Tamil Nadu Government) or by giving a grant which is capitalised if the project matures (as is being done by the State Industrial Investment Corporation of Maharashtra) or by interest free loans to be recovered at the stage the enterprise starts functioning. (Para. 4.52)

25. It would be essential to adequately strengthen the Small Industries Service Institutes with qualified and experienced staff to provide detailed consultancy services to smallscale entrepreneurs. It should also be possible for the National Productivity Council, banks and the financial institutions to strengthen their organisations to perform the consultancy role in a big way. (Para. 4.53)

26. Administrative-policies should be reviewed and modified so that built-in bias towards capital-intensive machinery because of certain extraneous factors is removed and loss of employment opportunities on this account is avoided. (Para. 4.54)

27. The present set up in the Ministry of Industrial Development in the Appropriate Technology Cell should be suitably reorganised, expanded and staffed by a competent inter-disciplinary team of technologists, economists, and sociologists under the administrative charge of the Ministry wherever it is considered appropriate. It should also have the responsibility to sponsor research schemes in National Laboratories and generally stimulate research and development work in the field of appropriate technology. The cell may also be empowered to operate pilot projects and conduct field demonstrations with a view to assessing the utility of particular devices and equipment from the point of view of appropriate technology. Further, it should have an effective voice as an operational agency in advising the Government on the relevance and suitability of particular technologies to be adopted in the establishment of new capacities in various industries. (Para. 4.60)

28. Apart from the emphasis on appropriate technology, encouragement should be given in general to the development of indigenous technology. (Para. 4.62)

29. Full support should be given to the activities of the National Research Development Corporation, Council of Scientific and Industrial Research and other similar organisations who are dealing with development and utilisation of indigenous technology as a means of creating more employment opportunities in the country. (Para. 4.63)

30. The special schemes drawn up by the Ministry of Industrial Development for educational unemployed and for self-employment of engineers should be reviewed in the light of the experience so far and

suitable adjustments made therein with a view to making them more effective and purposeful. (Para. 4.65)

31. The long-term problem is one of creating conditions for the growth of self-employment through orientation of our educational programmes, particularly those of the vocational type. This is a task which needs careful examination and exploration, for any advance we could make on this front would add a new dimension to our endeavours in enlarging the area of employment. (Para. 4.66)

32. Institutions of the type of Kerala Industrial Technical Consultancy Organisation (KITCO) would need to be set up in the backward States to undertake surveys and to provide the necessary consultancy services for the development of the backward districts. (Para. 4.71)

33. In view of the large-scale employment being provided by the traditional rural and cottage industries the Working Group considers that the institutional credit should be made available to them on liberal terms taking into account their requirements. (Paras. 4.75)

34. The Group further feels that the concerned agencies should take up programmes on an immediate basis for the improvement of skills, designs and production techniques. Such programmes could be spread over a number of years as suggested by the Ashoka Mehta Committee for Khadi and Village Industries. In the meantime, fiscal support measures in their present form should continue and be extended to those industries not yet covered. (Para. 4.76)

35. There is need for an expert investigation as to how far some of the activities of the modern industrial sector could be decentralised to the village and small-scale levels. After investigation into such possibilities one or two pilot projects could quickly be taken up and on the basis of the results the potentialities of extension can be assessed further. (Para. 4.77)

36. In industries like textiles and sugar where large-scale employment is involved, priority should be given for modernisation so that closures on this account are avoided. An institutional approach capable of providing technical, financial and managerial assistance is imperative for the modernisation of these industries. (Para. 4.79)

37. In order to attract significant investments in the backward areas it would be worthwhile to supplement the current capital subsidy of 10 per cent by giving loans at bank rate either by the financial institutions or by the Life Insurance Corporation for an initial specific

period. Since this will involve loss to these institutions, it would be necessary to reimburse them to the extent of their service charges.
(Paras. 4.81 and 4.82)

38. For the first five years or so after the commencement of production the tax receipts from excise duties should be given back to units set up in backward areas. They should also be exempted from the payment of sales-tax and octroi duty for an initial period of five years. Also a transport subsidy equivalent to 50 per cent or more of the transport cost of raw materials and finished goods should be extended to certain other inaccessible areas. (Para. 4.83)

39. Core and heavy investment industries should be treated as priority industries for purposes of taxation and also for allocation of rupee finance and foreign exchange. The list of priority industries should also be reviewed periodically. (Para. 4.85)

40. In a situation of rising prices of equipment and machinery it will be necessary to devise a scheme by which the total accumulated depreciation is adequate enough to cover up the replacement cost of plant and machinery. One way to do this may be to mark-up the initial value of the machinery and equipment by a proportion equal to rise in prices. Such a mark-up can be done on a periodical basis. This facility should be available to industries on a selective basis. (Para. 4.87)

41. With a view to encouraging greater use of labour-intensive techniques of production, expenditure on wages should be treated more favourably for tax purposes. The wage bill can be given some weightage, say equal to 1 and 1/10 for the purpose of calculating taxable profits. If the wage bill is Rs. 100 as a deductible item it would be taken as Rs. 110. (Para. 4.88)

42. Every inducement should be given to run almost every industry on a three-shift basis. A positive inducement could be in the form of tax rebate on increased production through additional shift working, e.g., in the case of industries where the processes are not continuous, tax credit can be made available in respect of additional production attributable to the third shift. This tax concession can be by way of a rebate of 5 to 10 per cent. in the normal excise duty.
(Paras. 4.89 and 4.90)

43. Apart from the various recommendations as above, the Working Group has also drawn attention to certain fundamental aspects of our economic policy in the section on 'Some Questions Raised'. While the Group has not been able to provide detailed answers to these questions, it considers that an expert examination of these issues is

relevant from the point of view of dealing with the massive problem of unemployment.

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NOVEMBER 20, 1972.

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